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Eurobond market

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The smart car

Is it smart to make a new car in a new way?

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Flashpoints abound despite peace deal

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World Business Newspaper http://www.FT.com TUESDAY JULY 1 1997

Regulator is set to crack down on French banks

France's banking regulator is considering sanctions against financial institutions which undercut competitors and grant loss-making loans. The Banking Commission is discussing a range of measures – which extend to withdrawing an institution's banking licence – because of growing evidence that cut-throat competition is intensifying. Page 16

US consumer spending up: Spending by US consumers increased by 0.3 per cent in May, providing further evidence that the economy remains on a moderate growth path. Personal incomes also grew by a seasonally-adjusted 0.3 per cent in May. Page 7

Andersen's Grafton is stop-gap chief: The board of Andersen Worldwide has appointed board chairman Robert Grafton as temporary new chief executive, in an attempt to buy time to heal internal divisions. The board has twice failed to win the backing of the organisation's 2,700 partners for its choice for the job. Page 17

Grilled oysters: The Oyster Bar at New York's Grand Central Terminal has been gutted by fire. The restaurant, which predates the opening of the terminal in 1913, was well known to New Yorkers and visitors for its fine food and bustling atmosphere.

Japan closes development bank: The Japanese government said it would close Japan Development Bank, the quasi-government institution which makes long-term private sector loans at low rates. Finance minister Hiroshi Mitsuzuka's decision is seen as a blow for the powerful Finance Ministry, which oversees the bank. Page 6

BA staff back strike action: British Airways ground staff have voted to back strike action and its cabin crew have called for a rolling programme of 72-hour periods of disruption. Talks are to be held over the next few days in a last-ditch effort to prevent industrial action. Page 16; Editorial Comment, Page 15

Boost for Eurotunnel plan: The prospect of Eurotunnel winning shareholder approval for its financial restructuring has improved after an investor hitherto opposed to the deal agreed to vote in favour. Ms Sophie L'Hélias of Franklin Global Investor Services said her principal client was now instructing her to vote in favour. Page 17

$5.8bn loss for France Telecom: France Telecom, the state-owned operator which may be partly privatised this year, made a net loss of about FFr33.9bn ($5.8bn) in 1996. Page 17

New Cyprus talks: Leaders of Greek and Turkish Cypriots are to meet for the first time in three years for talks which the UN hopes will make headway on resolving the division of the island.

Sumitomo to co-operate with Franklin: Sumitomo Life Insurance, Japan's third-largest life insurer, has agreed to co-operate on international equity investment with the Franklin/Templeton Group, one of the largest US fund managers. It highlights growing pressure on Japan's life insurers to provide higher returns amid intensifying competition in the fund management market. Page 17

Japanese racketeering scandal grows: Shares in three of Japan's largest securities houses, Daiwa, Nikko and Yamaichi, tumbled yesterday after a lawyer implied the companies had had improper dealings with corporate racketeers. Page 16

$5.8bn loss for France Telecom: France Telecom, the state-owned operator which may be partly privatised this year, made a net loss of about FFr33.9bn ($5.8bn) in 1996. Page 17

Clinton rejects tax-cutting bills: US President Bill Clinton has rejected tax-cutting bills passed last week by the Republican-controlled congress as inadequate. He produced new compromise proposals aimed at achieving an agreement to balance the federal budget within five years. Page 16

Windsor Castle rooms to reopen: Windsor Castle's two major rooms, closed to the public since the 1992 fire, will reopen at Christmas. When restoration work comes to an end the public may be allowed into other areas of the castle for the first time.

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STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	7,680.80	(-26.92)
NASDAQ Composite	1,440.72	(+2.57)
Europe and Far East		
CAC40	2,858.28	(-32.78)
DAX	3,785.77	(-9.64)
FTSE 100	4,604.6	(-35.7)
Nikkei	20,604.96	(+81.21)

US LUNCHTIME RATES

Federal Funds	6½%
3-mth Trees Bills: Yld	5.173%
Long Bond	97⅞
Yield	6.612%

OTHER RATES

UK: 3-mo Interbank	6⅞%	(6⅞%)
UK: 10 yr Gilt	101⅝	(101⅝)
France: 10 yr OAT	99.29	(99.59)
Germany: 10 yr Bund	102.19	(103.45)
Japan: 10 yr JGB	104.298	(104.338)

NORTH SEA OIL (Argus)

Brent Dated	$18.205	(17.86)

GOLD

New York: Comex		
(Jul)	$334.2	(334.8)
London:		
close	$334.55	(338.55)

DOLLAR

New York: lunchtime		
£	1.6645	
DM	1.74425	
FFr	5.8784	
SFr	1.4610	
Y	114.545	
London:		
£	1.6643	(1.6621)
DM	1.7425	(1.7383)
FFr	5.8710	(5.8568)
SFr	1.4579	(1.4488)
Y	114.43	(114.545)
Tokyo close:	Y 114.35	

STERLING

DM	2.9001	(2.8858)

9 770174 738128 27

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Prince Charles pledges support for Hong Kong as territory returns to China

Handshake seals end of empire

By Peter Montagnon, John Ridding and George Parker in Hong Kong

A brief handshake between Prince Charles and President Jiang Zemin of China last night sealed the end of Britain's Asian empire as Hong Kong returned to Chinese sovereignty.

In a solemn and emotional ceremony, British and Chinese leaders watched silently as the Union flag was lowered. Applause burst out as China's five-star red flag was hoisted over Victoria harbour.

Minutes before the midnight handover, Prince Charles pledged support for the people of Hong Kong. He said the territory's success "demands and deserves to be maintained". He expressed Britain's "thanks, admiration, affection and good wishes to all the people of Hong Kong. We shall not forget you and we shall watch with the closest interest as you embark on this new era of your remarkable history."

Mr Chris Patten, Hong Kong's last governor, said Britain had supplied the scaffolding for the territory's ascent to prosperity. He urged all sides not to dwell on history. "Sometimes we should remember the past the better to forget it." No-one could condone the opium trade which led to Britain's acquisition of Hong Kong, he said, nor the events of the present century which had seen huge upheavals in China.

The ceremonies followed a summit meeting in which Britain and China moved to cement a closer relationship. Mr Tony Blair, the British prime minister, has accepted an invitation to visit Beijing. This signals that in spite of disputes surrounding the handover, the two nations are determined to make a fresh start and share an interest in the prosperity of Hong Kong, the world's seventh largest trading economy.

Their summit was the climax of several meetings which preceded the handover. It came as the first armed troops from the People's Liberation Army crossed into Hong Kong in a swift assertion of China's resumption of sovereignty.

Hong Kong's return has been presented as a landmark by China's leaders, who view the handover as a symbol of its economic and political ascent and a step towards reunification with Taiwan. But Mr Jiang also sought to reassure Hong Kong that China would respect its promise to maintain the territory's capitalist system and freedoms.

"The Chinese government will unswervingly implement the basic policies of 'one country, two systems'," he said, referring to the formula which underpins the transfer of sovereignty.

Meanwhile, in Beijing's Tiananmen Square tens of thousands watched a clock count down the seconds to Hong Kong's return and applauded as midnight struck.

Pro-democracy groups in Hong Kong staged rallies criticising the deployment of PLA troops and the replacement of the territory's elected legislature. Thousands gathered to hear Mr Martin Lee, leader of the Democratic party, as he vowed to fight for civil liberties. Supporters of Ms Emily Lau, the pro-democracy legislator, wrapped a giant yellow banner around the Legislative Council building. The radical April 5 group wielded placards denouncing Mr Li Peng, the Chinese premier. But the mood was generally calm.

No Chinese officials attended the ceremony where Mr Patten made his final address. Mr Blair and Mr Robin Cook, the British foreign secretary, boycotted the swearing-in of the

Continued on Page 16

An honour guard folds the Union Flag after lowering it during the British farewell ceremony shortly before the handover Reuter

Kohl certain Germany will meet Emu target

By Frederick Stüdemann in Berlin

Germany's chancellor Helmut Kohl stood firm yesterday against rising domestic criticism of the Bonn government's approach to the single European currency and restated his view that monetary union would take place on time and under the conditions laid down in the Maastricht treaty.

Speaking after a meeting of his ruling Christian Democratic Union (CDU), Mr Kohl said Germany would meet the condition of a public deficit of 3 per cent of gross domestic product this year, so as to qualify for Emu in 1999.

"The entry criterion of 3 per cent will not be watered down," he said.

The chancellor added that the German government would remain on its "clear course" towards monetary union, and that he personally had not the "slightest doubt that the euro will come".

The latest internal German wrangling over the euro involves Mr Edmund Stoiber, the prime minister of Bavaria and a senior member of the Christian Social Union, the CDU's sister party. Mr Stoiber has sought to present himself as the guardian of a hard D-Mark and called for a "controlled postponement" of Emu if the Maastricht criteria are not strictly fulfilled.

Mr Stoiber's tactics carry the threat of opposition to Emu from the second chamber, where the regional states are represented and the opposition Social Democrats (SPD) have a majority.

Mr Gerhard Schröder, SPD premier of Lower Saxony, has also spoken out in favour of a delay to Emu, as has Mr Heinz Schleusser, SPD finance minister in North Rhine-Westphalia, Germany's most populous state.

Mr Kohl refused to comment directly on Mr Stoiber's remarks or on a response from Mr Wolfgang Schäuble, leader of the CDU/CSU parliamentary party, who accused the Bavarian premier of stirring up popular fears about the euro.

The chancellor also refused to be drawn on how Germany will meet the 3 per cent public deficit target. Many observers predict it will be missed this year, and even in the administration doubts are high.

Instead, Mr Kohl reiterated previous statements about the importance of a stability pact for Germans, who recalled how the hyperinflation of the 1920s wiped out confidence in the financial system and contributed to Hitler's rise.

The introduction of the D-Mark in 1948 pre-dated the foundation of the federal republic, the establishment of its highest authority, the constitutional court.

But while underscoring the importance of the euro's being as sound as the D-Mark, Mr Kohl said Germany should refrain from issuing judgments as to which EU member states were suitable for Emu membership. He said all states should "do their homework", but that Germany should not play the role of issuing marks, otherwise it would invite accusations of arrogance.

Moves to beat Emu currency speculators, Page 3

British Airways in talks to head off staff strikes

By Robert Taylor, Michael Skapinker and Jimmy Burns in London

Last-ditch talks will be held over the next few days in an effort to prevent the outbreak of industrial conflict at British Airways after more than 2,000 cabin staff last night voted for a programme of 72-hour strikes.

The airline's ground staff also voted yesterday to back their union's call for strike action, and they they will decide today what form it should take.

The moves came as Mr Bob Ayling, BA's chief executive, said he had received a letter from Mr Bill Morris, general secretary of the TGWU union, calling for negotiations over the ground staff dispute. "It is a welcome sign," he said.

But Mr Ayling also made clear that BA still intended to sell its catering operations to another company while protecting the conditions of employment of existing staff. He also said that, while he wanted to develop a "new relationship" with BA's cabin crew who belong to the TGWU, an agreement on pay and conditions had already been reached with cabin crew at the airline who belong to another union.

The first moves to try to resolve the dispute came yesterday after the TGWU announced that its ground staff members, who include baggage handlers and ticket desk staff, had voted by a two to one majority in a secret ballot to back industrial action in protest at the selling of the catering operations.

While 4,150 (62.5 per cent) backed the union call for disruption, 2,485 voted against (37.5 per cent). There was a 69 per cent turnout.

Mr Ayling said he was "disappointed" at the ballot result. But Mr George Ryde, the union's national officer for civil air transport, said it was a "confident vote" for industrial action. He added that ground staff had withstood "ferocious pressure and intimidation".

The airline has threatened to dismiss strikers, sue them for damages and stop their pay. It has also prepared wide-ranging contingency plans to break any strikes by cabin crew and ground staff by training replacement staff and managers.

Cabin crew voted for action by a similar two-to-one margin in a ballot result announced late last week. This was followed by last night's vote for a series of 72-hour stoppages to begin next week. Only eight of those attending the mass meeting at a hotel near Heathrow voted against the strike call.

Both groups must give seven days' notice of any disruption to BA under the law. The final decision on whether to go ahead with strikes rests with Mr Morris, who will have to decide whether to accept recommendations for disruption. Privately he wants to see a deal, but he believes BA's tactics have hardened attitudes among staff.

BA anti-strike strategy .... Page 10
Editorial Comment .... Page 15

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Russian reformer facing setback

Communist strongly placed to win election as governor of Nemtsov's home region

By Chrystia Freeland in Moscow

Mr Boris Nemtsov, most popular of Russia's young team of market reformers, faces an embarrassing Communist upset in his home region of Nizhny Novgorod, after the first round of voting for a new governor over the weekend.

The strong Communist showing has also brought him personal discomfort because his wife supported one of the losing candidates, prompting claims she had helped to split the anti-Communist vote.

Preliminary results from Sunday's ballot show Mr Gennady Khodyrev, the region's former Communist first secretary, with 38 per cent of the vote, only slightly behind the city's centrist mayor, Mr Ivan Sklyarov, with 41 per cent. Three other candidates polled less than 9 per cent. Because neither of the leading contenders won a clear majority, the winner will be determined by a run-off later this month.

A Communist victory in Nizhny Novgorod, often described as the laboratory of Russian market reforms, would give the leftwing opposition a perfect opportunity to criticise the entire government's economic programme and to undermine its most highly rated new minister.

"People are seeing that everything was not as wonderful in Nizhny Novgorod as everyone said and that the young reformers make mistakes," said Mr Khodyrev on television over the weekend.

The electoral race has already drawn the attention of Moscow's heavyweights. In a rare show of unity with the Communists, the ultranationalist Mr Vladimir Zhirinovsky backed the Communist challenger. Both Mr Zhirinovsky and Mr Gennady Zyuganov, the Communist leader, campaigned personally in Nizhny Novgorod.

However, Mr Nemtsov, who dominated regional politics when he was governor and took pains to weaken potential rivals, took a strikingly passive position in the contest. He did not openly endorse any of the democratic candidates, nor did he return home to campaign against the Communists.

Aides defended their boss's behaviour as a liberal departure from the Soviet tradition of dictating to the provinces from Moscow. Other prominent commentators have been less tolerant, including Mr Yevgeny Kisiliev, Russia's most influential television news anchorman and an open supporter of the reform team. This week he publicly scolded Mr Nemtsov for making a political miscalculation and urged him to become actively involved in Nizhny Novgorod ahead of the second round of voting.

Other analysts agree. "I fear that Khodyrev will win and his victory will be a celebration of national importance for all the opposition," said Mr Sergei Markov, a Moscow professor of political science. "It would seriously hurt Nemtsov's image as a reformer. I fear he has made a big political mistake."

One reason for the strong Communist performance is the failure of Mr Sklyarov to win the heartfelt support of Mr Nemtsov's team of young market enthusiasts.

"Unfortunately, we did not have a passionate, clearly democratic candidate here," said Mr Igor Maskaev, a deputy governor of Nizhny Novgorod and longtime Nemtsov ally. Mr Maskaev did not actively campaign for Mr Sklyarov in the first round but says he will back him in the run-off and urge his colleagues to do likewise.

■ Ms Tatyana Dyachenko, younger daughter of President Boris Yeltsin, was yesterday officially appointed an adviser to the president on his public image.

Luxembourg back in the EU's hot seat

The tiny state is taking over the Union's helm, a role for which it has special talents, write **Lionel Barber** and **Gordon Cramb**

Luxembourg, the mighty microstate sandwiched between France and Germany, takes over the presidency of the European Union today. Mr Jean-Claude Juncker, its prime minister, is already predicting a "high-voltage" period in the chair.

Two themes will dominate the next six months: monetary union and enlargement to central and eastern Europe. Yet the outlook for Emu is uncertain, and the battle over the terms and the timetable of enlargement is just about to begin.

In a fortnight, the European Commission will publish its opinions on applications to join the Union from 10 central and eastern European countries. At the same time, it will unveil proposals to reform the common agricultural policy and regional aid as well as a new seven-year budget package when the current arrangements expire in 1999.

These proposals – known as Agenda 2000 – will be highly contentious. Big net beneficiaries, such as Greece, Ireland, Portugal and Spain, will fight to keep every Ecu, despite pressure to redirect funds towards future new members.

Meanwhile, the Commission's clear signal that it intends to recommend some – but not all – eastern applicants for membership is bound to cause tensions among their sponsors in the present Union.

The Luxembourgers are able to call on an experienced team. Many cut their teeth on the 1992 Maastricht treaty negotiations. Mr Juncker drafted the treaty's conditions and timetable for the introduction of the single currency in 1999. Mr Jacques Poos, foreign minister, was around in 1985 when the Union had only 10 members.

One further advantage for the incoming presidency is that the long-running intergovernmental conference is over. The outgoing Dutch presidency met the self-appointed deadline for wrapping up the IGC two weeks ago in Amsterdam.

The new treaty has attracted criticism for being insubstantial, and EU leaders ducked a decision on how to reform the voting weights between big and small countries which they had previously said was necessary to pave the way for a union of 25 or more countries in the next century.

However, the new treaty of Amsterdam incorporates the Schengen agreement on freedom of movement, and provides new opportunities for closer co-operation on internal security.

Moreover, Mr Hans van Mierlo, Dutch foreign minister, assured candidate countries that the inconclusive deal had been "scandalously exaggerated" in terms of its impact on enlargement. "We have plenty of time to resolve it. We have years," he said.

Brussels diplomats argue that the more important result in Amsterdam was that EU leaders, notably Chancellor Helmut Kohl, judged it was more important to sacrifice elusive dreams of a political union in favour of securing Emu as the building block for future enlargement.

One unforeseen complication is a renewed bout of tensions in the Franco-German alliance. These stem partly from the unexpected victory by the French left in parliamentary elections which has pushed an unprepared Socialist party into co-habitation with President Jacques Chirac on a platform which is pro-growth, anti-austerity, and, therefore, ambiguous about meeting the Maastricht conditions for Emu.

At the same time, Mr Kohl, visibly weaker politically than six months ago, is boxed in on Emu. Opponents on the left and right are insisting on a strict interpretation of the Maastricht treaty which says countries' budget deficit should be no more than 3 per cent of gross domestic product; and Bonn is struggling to meet the target. The French government, meanwhile, has signalled it would not meet the precise target in 1997, but intended to do so in 1998.

If there is anyone who can bridge the gap between Paris and Bonn, it is Mr Juncker. He played the role of broker in Dublin six months ago when the two sides agreed on a stability and growth pact to enforce budgetary discipline in the future euro zone.

Under French pressure, new language committing the Union to promote employment and growth was added to the stability pact in Amsterdam. The Luxembourgers expect the next French cavalry charge against German-style monetary and fiscal discipline in the autumn when EU leaders are scheduled to hold a summit devoted to employment.

By that time, most countries should have their budgets for 1998 in place and the growth and deficit performances for 1997 should indicate which countries have qualified for Emu, with or without fudging the criteria. Mr Juncker is braced for a turbulent autumn.

Commission tries to prod EU member states into action

Lift for cross-border banking

By Emma Tucker in Brussels

The European Commission said yesterday that member states should not prevent banks from other EU countries offering retail services unless they could show that the restriction was "non-discriminatory, objectively necessary and proportionate to the defined objective".

The attempt to boost cross-border retail banking, one of the single market's least successful sectors, comes in the form of a communication, interpreting and clarifying the existing law. Until now, banks have been slow to exploit the freedoms granted to them because of widespread uncertainty over what the law says.

In particular, the communication attempts to clear up what is meant by the concept of "general good", a term currently used some member states to justify various obstacles to cross-border banking.

For example, France and Belgium insist that mortgage contracts have to allow for early repayment – an obligation that deters banks from other EU countries where early repayment is not necessarily an option.

Similarly, France insists that all banking contracts be drawn up in French and the Dutch government bans door-to-door selling of banking services.

The Commission hopes the guidelines will increase the diversity of banking services on offer by encouraging banks to reach out to consumers in other member states. It also hopes that by liberally interpreting the content of the so-called second banking directive it will also assist the smooth development of internet banking across the Union.

Mr Mario Monti, the single market commissioner, said the clarifications would give "fresh momentum to the freedom to provide banking services" and said they would make it much easier for electronic services to get off the ground.

However, the Commission is not the final arbiter on the law and its guidelines could be challenged in the European Court by any member state.

The communication also clarifies the notification procedure for banks aiming to offer cross-border services. In essence, internet banking services will not have to be notified to all supervisory authorities but will be subject to the rules of the home country from which the bank operates.

The second banking directive came into force four years ago. Since then, the number of branches opened by EU banks and credit institutions in other member states has risen by 50 per cent. However, retail banking in particular has been hampered by uncertainty about the law.

Gibraltar and Spain see HK in opposite lights

Tom Burns reports from the Rock on conclusions drawn from yesterday's handover

The interested observers of Spain and Gibraltar yesterday drew diametrically opposed lessons from the British handover of Hong Kong.

Mr Joseph Garcia, youthful leader of the small Gibraltar Liberal party, said: "I'm sick of being asked about this. There was a 99-year lease in Hong Kong and there isn't one here."

Ms Ana Asquez, a curator of the Gibraltar Museum, said firmly: "We are talking about two entirely different subjects." Her museum exhibits prints of Spanish attacks on the Rock 200 years ago, dozens of British regimental badges and a cheroot holder used by Nelson.

Shoppers on Gibraltar's Main Street yesterday brushed aside questions from Spanish television camera crews. "Drugs here?" exploded one elderly resident in the accented Spanish of southern Spain. "Look at your own *patio*."

However, while Gibraltar may be shrugging off events in China, Spain is not. "Two interesting precedents have been set," said a senior Madrid diplomat late last week. "Britain has handed to China a colony [Hong Kong Island] that it held in perpetuity, and it has done so without consulting the population."

But the Madrid government is aggrieved that Britain appears to be encouraging closer links with Gibraltar and self-determination for its population of 30,000 even as it runs down the flag on Hong Kong.

Gibraltar recently gained the right from the UK Department of Trade and Industry to issue its own insurance "passports". This is likely to be followed with the prerogative to issue banking "passports". These will allow financial institutions, supervised by the authorities in Gibraltar, to open branches anywhere in the European Union.

For Gibraltar such developments are milestones in its efforts to set up a viable off-shore finance centre and they vindicate the efforts of Mr Peter Caruana, the chief minister, to cleanse the Rock of smuggling and money-laundering activities.

Mr Caruana, who was elected to office last year, will be seeking key constitutional changes in talks in London this month. His draft plan is to have the Home Office assume responsibility for the Rock in place of the Foreign Office, and to have Gibraltar assume Channel Island status.

For Spain this is is simply not acceptable. "We won't be flexible about anything, and I stress anything," the Madrid diplomat said, "unless the issue of sovereignty is put on the table. Gibraltar cannot survive economically if it ignores Spain, and to suggest otherwise is deny reality."

Even if Madrid were amenable to Mr Caruana's plans, Gibraltar's image presents a problem. "You need centuries of nothing happening, like Jersey, a distillation of Home Counties culture, for an off-shore centre to take off," said Mr Ian Angus, chief executive on the Rock of the accounting firm Coopers & Lybrand. "Gibraltar has long had a raffish reputation and, although it is undeserved now, you can't just shrug it off."

The vexed questions of sovereignty and constitutional change – under the 1713 Treaty of Utrecht, Spain has first refusal should Gibraltar cease to be a colony – irritate some of the calmer voices on the Rock, who see that its future must inevitably be linked to some sort of accommodation with Madrid.

Spain can and does impose severe restrictions on its frontier with the Rock and Gibraltar airport, which is built on the narrow isthmus connecting the colony to mainland Spain. The isthmus is particularly contentious because it is no-man's land under the terms of the treaty.

"Our priority is not constitutional development. It is a dialogue with Spain," said Mr Solomon Seruya, a senior Rock businessman and a member of Gibraltar's government in the 1960s. "Spain must respect the human rights here and together we must work out an agreement on the airport. That would be a breakthrough for confidence-building."

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Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maravigila, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.
© The Financial Times Limited 1997. Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

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EUROPEAN NEWS DIGEST

French jobless total leaps up

France's jobless total rose sharply in May, increasing pressure on the new Socialist-led government to secure fast results in its battle to bring down unemployment. The number of people out of work in the month rose by 32,400, or 1.1 per cent, to 3.11m, according to seasonally adjusted figures from the labour ministry yesterday.

The increase, which surprised economists, was particularly badly timed for the government, coming just two days after the confirmation of controversial plans by the motor manufacturer Renault, which is partly state-owned, to close a Belgian car assembly plant employing 3,100 people. It brought immediate calls for rapid action from union leaders. Mr Marc Blondel, head of the Force Ouvrière union, said: "The priority must no longer be the reduction of deficits." *David Owen, Paris*

Lamfalussy's parting shot

Mr Alexandre Lamfalussy, outgoing president of the European Monetary Institute, forerunner of the planned European central bank, warned yesterday that new investment and jobs could be created only if governments took strong action to curb budgets and tackle structural problems. Monetary policy alone could not do this, he said at a ceremony to mark his retirement. He is succeeded today by Mr Wim Duisenberg, former head of the Dutch central bank.

Mr Lamfalussy noted that general government debt in the EU rose from 56 per cent of gross domestic product at the end of 1991 to above 73 per cent at the end of 1996. This did not create the necessary confidence for consumers and investors.

Calling current levels of unemployment in most EU countries "ethically unacceptable", he said governments had to reduce labour market rigidities and cut non-wage labour costs. Fiscal policies should foster a climate of confidence by implementing "a credible process of reforms", while the right fiscal, financial and regulatory environment had to be put in place for business and job creation. *Andrew Fisher, Frankfurt*

Schneider accuses the banks

Mr Jürgen Schneider (left), the former property tycoon, yesterday called on some of Germany's biggest banks to accept responsibility for their part in the collapse of his business empire three years ago. In front of a packed Frankfurt court on the opening day of his trial for credit fraud and fraudulent bankruptcy, he insisted that the banks were fully aware of the risks involved in funding his group's rapid expansion. His property business – which built luxury hotel, shopping centres and offices across the newly reunified Germany in the early 1990s – collapsed in April 1994, leaving debts of more than DM5bn ($2.9bn). German prosecutors allege that Mr Schneider falsified documents and exaggerated expected rental incomes to dupe banks into making bigger loans.

Looking relaxed and without the trademark toupee he wore when his property business was at it its peak, Mr Schneider, now 63, admitted he was not as "innocent as a lamb". But he said the banks were also to blame. "They decided to criminalise me in a spectacular fashion in order to push all the guilt on to me alone," he said in a 50-minute speech.

Mr Schneider fled Germany with his wife just before his company collapsed. He was discovered in Florida before returning last year. *Graham Bowley, Frankfurt*

Head of Veba unit suspended

The chairman of Veba Immobilien, property arm of Veba, the large Düsseldorf-based industrial conglomerate, was suspended yesterday by the subsidiary's supervisory board. Mr Ulrich Lilienthal is in custody pending investigation by the public prosecutor in Bochum, where Veba Immobilien is based, of allegations that he billed his company for building work on his private house and garden. Veba said his arrest was part of "on-going" investigations into the subsidiary.

Veba Immobilien is one of Germany's largest property companies, managing about 137,000 housing units and 550 commercial properties mainly in the state of North Rhine-Westphalia. It has about 1,000 employees and had sales last year of DM1.06bn ($613m). Earlier this year, it was given responsibility for managing the housing stock of the public housing company, Deutschbau. The German government sold Deutschbau to a consortium owned by Veba and Deutsche Bank for more than DM2bn as part of its privatisation programme. *Ralph Atkins, Bonn*

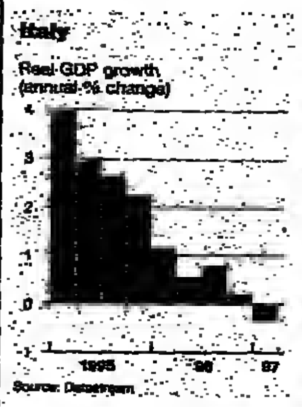
Russian oil stakes on sale

The Russian government began selling shareholdings in six oil companies yesterday in an attempt to revive its controversial privatisation programme and raise revenue. The first two stakes were a 21 per cent share of Komitek, a northern Russian oil producer, and 38 per cent of the Eastern Siberian Oil Company, which holds licences to develop some potentially lucrative oilfields.

Bidders have until September 12 to submit bids. The results will be known by October 10. Foreign investors have the right to participate but domestic groups are the most likely winners *John Thornhill, Moscow*

ECONOMIC WATCH

Italian GDP down 0.4%



Italy's gross domestic product fell by 0.4 per cent to the first quarter compared with a year earlier and by 0.2 per cent from the previous quarter, according to Istat, the official statistics institute. It was the second successive quarter registering negative growth, thus technically placing the economy in recession. However, Mr Carlo Azeglio Ciampi, the Treasury minister, said yesterday preliminary data for the second quarter pointed to a recovery. The government is still hoping to end the year with 1.2 per cent growth. The decline was accompanied by a drop of 2.9 per cent in imports and 4 per cent in exports. There was a slight increase in family consumption, with durable goods up 5 per cent, giving an annualised 1.5 per cent rise. This was largely attributed to a government scheme to encourage car-buying, which has proved far more popular than expected. Overall industrial output during the first quarter fell 1.5 per cent. *Robert Graham, Rome*

■ The Danish economy grew by 2.4 per cent in the first quarter compared with the same quarter Growth for 1996 was revised up to 2.7 per cent from 2.4 per cent.

NEWS: EUROPE

State premier challenges Bonn's wavering on strict interpretation of Maastricht treaty's target for budget deficits

Bavarian dissent fuels Germany's decimal debate

Preparing for Emu

In medieval Europe scholars devoted much time to discussing how many angels would fit on the head of a pin. In modern Germany, politicians are engaged in a debate of similar intensity. This one, however, is about whether Germany and other countries can join Europe's economic and monetary union if their public deficits exceed the Maastricht treaty limit of 3 per cent of gross domestic product.

At first sight abstruse, the "decimal point" discussion over how many tenths of a per cent above 3 per cent might be permissible for Emu has become increasingly significant over the past month.

Involving political ambitions, personal rivalries and issues of principle, the debate threatens to become a focal point for dissent over Emu and is already imposing strains on the three-party coalition led by the Chancellor, Mr Helmut Kohl. It is at the centre of a power struggle in the Christian Social Union of Bavaria, between Mr Edmund Stoiber, the state's CSU premier, and Mr Theo Waigel, the Bonn finance minister and the CSU leader.

The immediate cause of the controversy has been the sharp deterioration in Germany's public finances this year which has cast serious doubt on whether the country can meet the 3 per cent criterion in 1997, the critical year for deciding which countries launch the euro. Chancellor Kohl has been raising the stakes. Several times last month he linked his political reputation to the start of Emu as planned on January 1 1999 and gave the impression that, for him, the project was a political rather than an economic priority. Adding to German concerns has been the unexpected leftwing election victory in France and the admission by the new government there that it will not bring its deficit down to 3 per cent this year.

However, the emergence over the past month of Mr Stoiber as the unbending champion of a strict interpretation of the Maastricht criteria for Emu has given the debate a sharper edge. As a senior member of a party in the Bonn coalition, he cannot be dismissed lightly. As premier of one of Germany's bigger states, which he governs with an absolute majority, he is not beholden to Mr Kohl.

It was towards the end of April, as doubts were growing about Germany's ability to fulfil the Maastricht criteria, that Mr Kohl signalled his determination to resist any move to delay the introduction of the euro beyond the planned date.

In a succession of speeches, he has since painted a grim picture of the risks involved in a failure of the project.

Giving up Emu would be a "capitulation", the chancellor told the Bundestag, the lower house of parliament, last Friday. There would be "negative consequences for exports, investments, jobs in Germany, as well as for further European integration". Although Mr Kohl insisted that the punctual introduction of the euro would be with the "full observance" of the Maastricht criteria, he did not specify what this entailed.

This vagueness, although in accord with the letter of the Maastricht treaty, makes Mr Stoiber suspicious. The Bavarian leader spelled out his position in a series of interviews last month. "The euro will only be accepted in Germany if people have the assurance that this European currency will be as strong as the D-Mark. That is why the CSU insists that the deficit criteria for Germany is 3.0 per cent and not 3.2 or 3.3 per cent," he said early in June.

He has dallied with the prospect of Emu postponement. "Our position has always been: stability takes priority over the timetable. That means in consequence that a delay takes precedence over a weakening of the criteria." He has hinted that Bavaria would call on the constitutional court to block German participation in Emu if it became a member without meeting the Maastricht conditions.

Edmund Stoiber: an absolute majority in Bavaria means he cannot be dismissed lightly Reuter

Critics of Mr Stoiber argue that his stance owes more to a desire to replace Mr Waigel as CSU leader and boost his own chances in the Bavarian state elections in mid-September 1998. Although Mr Waigel has always insisted that a public deficit limit of "3.0 means 3.0", his position is suspect in Munich because of his friendship with Mr Kohl and his Bonn cabinet position. Because of his record as finance minister, Mr Waigel has become deeply unpopular, even in his own state, and his position as party leader could weaken Mr Stoiber's attempt to win more than 50 per cent of the votes for the CSU.

Whatever the truth behind such speculation, Mr Stoiber's campaign has temporarily silenced discord over Emu inside Germany's opposition parties and opened up a previously non-existent debate in Mr Kohl's coalition on how Germany can qualify for Emu.

Mr Heiner Geissler, a left-winger in Mr Kohl's Christian Democratic Union and no friend of the chancellor, has accused Mr Stoiber of "criteria fetishism" and insisted that the stability of the euro does not depend on Germany hitting the 3.0 per cent mark. Mr Helmut Haussmann, European spokesman of the Free Democratic party, junior member of the coalition, says sustainably low inflation will be more important "than a one-off decimal point success".

That is certainly a view shared by the German banking community, which is investing large sums in preparing for Emu. The private banking association last week expressed deep frustration at the course of the debate. It pointed out that hitting the 3.0 per cent deficit level was an inexact science and that the statistics on which Germany would be judged next spring would be subject to revision.

The 1994 deficit was initially put at 2.6 per cent of GDP before being revised down to 2.4 per cent, while that for 1993 was originally estimated at 3.3 per cent before being revised up to 3.5 per cent.

The bankers were sharply critical of a "bookkeeper's" approach to the Maastricht treaty which, they stressed, provided room for interpretation of the fiscal criteria. However, there is no sign of that message gaining the upper hand in the debate between Bonn and Munich.

Peter Norman

Conversion rates may have to be fixed before Emu date

One of the most vexing issues in the preparations for European economic and monetary union is the method by which national currencies should be converted to the euro.

A consensus appears to be emerging among bankers – central bankers and otherwise – that the conversion rates should be announced in advance, either next May when European Union leaders meet to decide who takes part in the first wave of the monetary union or possibly earlier. But many details have yet to be worked out.

Wolfgang Münchau reports on proposals to defend currencies against speculators

Mr Malcolm Levitt, EU adviser at Barclays Bank, has made a series of proposals* to minimise the risk of attacks from speculators in the interim period between May and December 1998.

The conversion process suffers from a logical flaw, something which EU leaders overlooked when they drafted the Maastricht treaty. According to the treaty, conversion rates between national currencies and the euro must not be decided before January 1, 1999, the scheduled starting date for Emu.

EU leaders also agreed at one of their summits that the Ecu, the basket currency of all 15 EU countries, should convert to the euro at a rate of one-to-one. The system is inconsistent because there are countries, such as Britain or Sweden, whose currencies are part of the Ecu, but which will probably not join in the first wave of Emu.

Mr Levitt proposes two escape routes out of the dilemma. One would be to redefine the Ecu basket to include only future euro members. But this would require a potentially divisive and time-consuming change in the European treaties.

His second suggestion is to pre-announce the bilateral conversion rates and then fix those rates permanently.

This suggestion builds on a proposal by four economists in an influential discussion paper** earlier this year. They said the bilateral rates should be pre-announced and the currencies then left to float freely into the euro without exchange-rate bands. They argued that restrictions would only invite the speculators.

Mr Levitt takes issue with the free-float part of the proposal.

He says that "this is the most attractive option considered so far, but if the set of participants itself is not credible in the view of the markets, turbulence would occur anyway".

He then goes on to suggest: "Why not announce next May that.... currencies are locked from that moment? Willingness to accept such a rule would be the acid test of the credibility of the set of countries selected".

A hint that financial markets may be looking to profit from the uncertainty came in a London seminar last week. Mr Tony Norfield, head of treasury research at ABN-Amro, said that a pre-announcement of bilateral conversion rates "could lead to dramatic arbitrage trades in European financial markets." Interest rates had not fully converged, he said, and the rates of the Irish punt and the Italian lira were particularly vulnerable.

* *Malcolm Levitt, Fixing Conversion Rates at the Start of Emu, discussion paper. Centre for Studies in Financial Innovation, 18 Curzon Street, London W1.*

** *David Begg et al, Emu: Getting the End-Game Right. CEPR, April 1997.*

President accepts opposition victory in Albanian election

By Guy Dinmore in Tirana

Mr Sali Berisha, the Albanian president, conceded yesterday that his Democratic party had been defeated by the opposition Socialists in Sunday's parliamentary elections and indicated that he would step down.

The Organisation for Security and Co-operation in Europe (OSCE), which monitored the polls, said the elections had been "adequate and acceptable" despite "minor flaws in many areas and some very serious problems in a few areas".

In a brief, conciliatory address, a sombre-looking Mr Berisha, who had confidently predicted victory, said his party would go into opposition and the votes of the Albanian people would be respected.

Apparently referring to pledges he had made that he would resign if the Socialists came to power, Mr Berisha said he would stick to all his previous declarations. "Let's work together for the future of Albania," he concluded.

Western election observers said they hoped the president's acceptance of defeat would help stem the widespread violence that erupted last March after the collapse of fraudulent pyramid savings schemes, some of which had close ties to the Berisha government.

> Monitors said the elections were 'adequate and acceptable' despite 'minor flaws in many areas and very serious problems in a few'

A Democratic party official was shot dead during Sunday's polling, and there were several reports of intimidation by armed gangs. But overall the elections were much calmer than expected. However, gun battles resumed in the rebel-held southern port of Vlora yesterday and at least one person was killed. Sporadic gunfire, probably from celebrating Socialist supporters, echoed across the capital, Tirana.

Official results are not expected before tomorrow, but the Socialist leader, Mr Fatos Nano, a former Communist, who is likely to become Albania's next president, said his centre-left coalition had so far won 95 seats in the 155-seat parliament.

A second round of voting will be held next Sunday in about 19 constituencies where no single candidate won an outright majority in the first round. Mr Nano said that, based on returns from his electoral officials, the Democrats had won only seven seats, compared with the 122 seats Mr Berisha's party had held in the previous parliament after flawed elections last year.

Mr Nano said a separate referendum on whether Albania should install a constitutional monarchy had produced a vote of no more than 20 per cent in favour of the self-declared King Leka, the exiled son of King Zog, who fled Albania in 1939. The monarchists insisted they had won 60 per cent.

Mr Nano, who was briefly prime minister in 1991 and emerged from three years in prison last March, appealed for reconciliation and urged the Democrats to co-operate in rebuilding Albania. But he also made it clear that Mr Berisha had to resign.

Mr Geoc Pollo, general secretary of the Democrats, told western diplomats that his party would be a "constructive and loyal opposition".

The OSCE told Albania's political leaders not to interfere in the vote-counting process, which was continuing, and to respect the results.

Panagia Odigitria, 1260-1270, Monastery of Chelandari

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New Turkish premier pledges 'freedom-loving' government

By Kelly Couturier in Ankara

A new and decidedly pro-secular Turkish government led by Mr Mesut Yilmaz, the conservative politician, won the backing of President Suleyman Demirel yesterday to replace the Islamist-led coalition which resigned last month under increasingly overt pressure from the military.

The new broad-based coalition, which faces a vote of confidence in the coming days, will be led by Mr Yilmaz's free market-oriented Motherland party. It also includes the smaller social democrat Democratic Left party and the conservative Democratic Turkey party.

Two other smaller parties have agreed to support the new coalition while not taking part in the government.

Although a rash of party defections in favour of the new coalition makes it likely that the Yilmaz government will win the vote of confidence in the 550-seat parliament, political analysts say that the new prime minister may not find it easy to keep together the various elements of his coalition.

He promised yesterday: "It will be a government that raises the profile of civilian, democratic and freedom-loving values."

The new government is being viewed in Ankara as the secular establishment's answer to a months-long political crisis that pitted Turkey's powerful armed forces against the country's first ever Islamist-led government in the modern era. The government was headed by the Welfare party leader, Mr Necmettin Erbakan.

Mr Erbakan infuriated the pro-western and adamantly secular military leadership during his one year in power with an occasionally erratic foreign policy, which included attempts to forge closer ties with Iran and Libya.

He also took steps to initiate Islamic-oriented reforms, such as allowing women to wear Islamic headscarves in public buildings and changing office hours to fit fasting time.

His resistance to military directives designed to thwart radical Islamic activity further heightened tension and fuelled speculation that the military, the self-proclaimed custodian of Turkey's secular tradition, was preparing a takeover.

Mr Erbakan ultimately bowed to the military pressure and resigned on June 18. But his hopes that his coalition would be reconstituted under the leadership of his secular coalition partner, Mrs Tansu Çiller, the leader of the conservative True Path party, were dashed when President Demirel selected Mr Yilmaz, and not Mrs Çiller, to form a new government.

"Our government will meticulously guard the tenets of the republic," which include secularism, Mr Yilmaz said after the president approved his new government.

Mr Yilmaz, who is 50, has been prime minister before but he is seen as an earnest if lacklustre politician, perhaps best known in recent years for his intense political rivalry with Mrs Çiller.

مكزامن الأصل

NEWS: WORLD TRADE

WTO set to uphold ruling on US beef

By Neil Buckley in Brussels

The World Trade Organisation was last night expected to uphold an initial ruling that the European Union's nine-year-old ban on imports of hormone-treated US beef was illegal.

Such a conclusion could ultimately force the EU to lift the ban, imposed in 1988 amid fears that hormones could harm health, or pay hundreds of millions of dollars to the US in compensation for lost exports.

The final report, due to be circulated to Brussels and Washington last night, was expected to confirm the findings of May's interim report that the ban broke WTO rules and had no scientific justification.

But the EU is almost certain to appeal against the ruling, either through the European Commission, or actions by one or more member states.

France, which has urged Brussels to take a firm line with the US, has said it is prepared to ban imports of hormone-treated meat even if it means heavy fines.

Lawyers said that if the initial ruling was upheld, it could open the way to a series of challenges to trade restrictions on the ground that they result more from consumer pressure than hard scientific evidence. One target area could be existing or future curbs on genetically modified foods.

The return of US beef imports would also be another blow to European beef farmers hit by the "mad cow" crisis. EU farmers fear that at best, US beef could substitute for their own product, or at worst, that public concerns over hormones could undermine confidence in beef just as it was starting to return.

But US trade and farming officials, who say US beef sales to the EU could be up to $250m a year, have hailed the WTO ruling as a precedent-setting victory.

The WTO's interim ruling backed the US complaint that the EU ban was illegal because no risk assessment had been carried out on hormones used by US farmers.

The Commission or member states can appeal against the ruling up to 10 days before the WTO disputes settlement body meets at the end of the month.

Even so, an appeal could be delayed until September, unless the US called for a special meeting of the disputes body during the August holiday. The disputes body has 60 days to rule.

Indonesia issues arms sales warning to UK

By Peter Montagnon in Hong Kong

Britain could lose its lucrative arms trade with Indonesia if the new Labour government insists on a broad link between human rights and equipment sales, Mr Ali Alatas, foreign minister, warned yesterday.

"If arms sales are linked by any country to what we believe are extraneous issues, then we will simply find other suppliers," he said in an interview. "It's not for nothing that they call it the arms bazaar."

Mr Alatas said he had discussed Britain's current review of its defence sales policy with Mr Robin Cook, UK foreign secretary, on the sidelines of the Hong Kong handover ceremonies. Mr Cook had assured him that the review was not specifically directed at Indonesia and that existing contracts would be met.

Separately, Mr Cook confirmed that the policy on defence sales was under review. "We are currently reviewing our criteria for arms sales on an overall basis. It may well turn out to have implications for a number of countries, of which Indonesia may be one," he said.

"That does not mean we do not wish to have a perfectly proper commercial relationship with Indonesia, which is not just in the interest of Britain but also in the interest of Indonesia."

Britain supplies Indonesia with a large number of Hawk fighter aircraft and other equipment including riot control gear. In return Indonesia has given assurances that the equipment will not be used for repressive purposes or in the former Portuguese territory of East Timor.

Suspicions among human rights lobby groups that British equipment has actually been used for internal repression has made the sales controversial in the UK. Mr Alatas denied these allegations, but said Indonesia could not accept any British requirement that it make broader undertakings on weapons intended for external defence.

His firm line follows Indonesia's decision in May to scrap a planned purchase of F-16 fighter aircraft from the US, following congressional efforts to link the sales to its human rights record.

Asked if he had been reassured by his meeting with Mr Cook, Mr Alatas replied simply that he was "at least better informed". Indonesia was now awaiting the results of the review, which he expected within a few weeks, but he stressed that any dispute over arms sales would not lead to British exporters being disadvantaged in civilian markets.

Contrary to some lobby group claims, there was never a connection between Britain's willingness to supply arms and Indonesia's readiness to buy other exports, he said. "Both sides know very well that we have a very solid economic relationship. Britain is the second largest investor in Indonesia."

Japan yields slowly to US shop culture

Two mall operators are persisting in their fight against Tokyo red tape. Gwen Robinson reports

US companies are stepping up efforts to establish American-style malls in Japan, despite bureaucratic opposition. Their moves coincide with rapid deregulation in Japan's retailing industry and the rise of discounters in response to growing consumer demand for better value.

Among the recent foreign success stories in Japan are the US discount toy retailer, Toys R Us, and clothing retailers such as the Gap and Eddie Bauer.

Many regard the ultimate test for foreign penetration of Japanese shopping culture, however, as the quest to build and operate massive shopping complexes and fill them with foreign, as well as Japanese, retailers. Two US groups are currently trying to negotiate their way through a maze of local and national government regulations to achieve this objective.

One of the earliest and most ambitious entrants to large-scale retailing in Japan is American Malls International, an offshoot of Western Development Corporation, a leading US developer of retail and office complexes including the country's largest mall. After studying the Japanese market for two years, AMI last year established a Japanese subsidiary to oversee plans to build a string of multi-billion-dollar malls called "retail theme parks" throughout Japan.

AMI selected a site for its first project in the town of Moriya, 35km north of Tokyo, and began negotiating with local landowners to purchase 800,000 sq m on which to build Japan's largest shopping mall. AMI said the mall would be the first of its kind in Japan, combining more than 200 speciality stores with at least 20 department stores, cinemas, an in-house theme park and parking for 10,000 cars. At the same time, the company drew up plans for a similar mall in the port city of Kobe, and began looking at candidate sites for six other malls.

Earlier this year, AMI said most landowners at the Moriya site had agreed to the company's offer, smoothing the way for AMI to apply for local government approval. The company also began negotiating with contractors with a view to starting building the Moriya complex next year, for completion by 2000.

But in April, Japan's ministry of agriculture, forestry and fisheries said it would oppose AMI's plan, as the site was designated a prime farming zone. Much of the Moriya site is not under cultivation, but the ministry has refused to change the land's status.

Critics of the ministry's stance say the government is using the law to block the entry of foreign retailers and warn that continued refusal could trigger another US-Japan trade dispute. They note that farmland easily won approval for conversion into golf courses and resorts during the "bubble economy" of the late 1980s.

The company's chairman, Mr Herbert Miller, said this week he would continue negotiations with local authorities and landowners and deal with higher-level opposition when the time came.

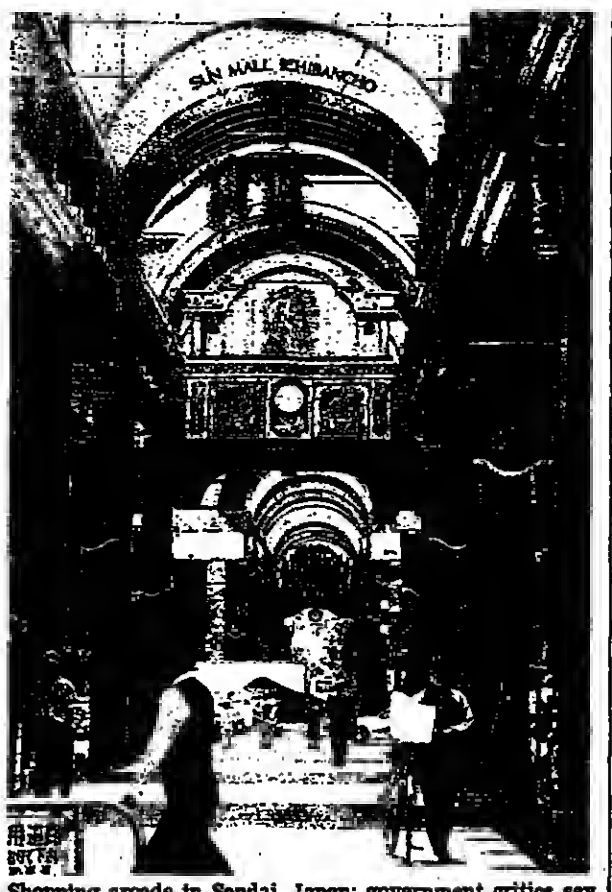
"The mall development process is difficult anywhere in the world," he said. "What we've learned in Japan in the past 2½ years is to be patient, to work with the communities ... and try to find solutions which meet the needs of both local and national authorities."

Meanwhile, MGS Japan, a partnership between WPI Koll, a large US shopping complex developer, and Funai Consulting, a Japanese marketing consultancy, wants to build a 300,000 sq m mall in Osaka.

MGS intends to develop four other malls in Japan by 2003, although retail analysts say MGS has encountered opposition from large Osaka-based retailers.

Neither MGS nor AMI is willing to discuss its difficulties, indicating the delicate nature of their negotiations with local lobby groups and the authorities.

In the long term, analysts say, the entry of large mall developers to Japan is inevitable and will revolutionise traditional retailing, including the rigid relationships between developers, department stores and speciality retailers.



Shopping arcade in Sendai, Japan: government critics say Tokyo is using the law to block foreign retailers

Boeing hopes high for deal on merger

By Nancy Dunne in Washington and Emma Tucker in Brussels

Boeing officials yesterday expressed optimism that US regulators would today allow a proposed $13bn merger with McDonnell Douglas, creating the world's largest aerospace company with more than 210,000 employees.

The Federal Trade Commission has until midnight tonight to halt the deal. Ms Sherry Nebel, Boeing spokesman, said both companies were confident about the conclusion "based on our ability to provide the documents they needed and answer their questions in a way that would answer their concerns".

Ms Nebel was also optimistic that regulators in Brussels, who have been vocal in their doubts over the deal, would ultimately approve the merger, despite what she described as "a very different" regulatory process.

Boeing last night submitted to the European Commission a formal list of remedies to its proposed merger with McDonnell Douglas which it hopes will meet Brussels' concerns.

A spokesman for the company – which had until midnight to hand over its documents – confirmed that Boeing had drawn up "constructive proposals which meet all three broad areas of the Commission's concerns".

The Commission has three main concerns about the deal.

The first is the 20-year exclusive supply contracts that Boeing has negotiated with American Airlines, Delta Air Lines and Continental Airlines of the US.

Secondly, Brussels is worried about the size of the merged company, which would control two-thirds of the world market for passenger aircraft and 95 per cent of freight transport sales.

The third concern is the possible spillover to Boeing's commercial activities from the merged company's access to military technology and funding.

The proposed remedies and the Commission's reaction to them will be presented to an advisory committee of national competition experts on Friday. A final Commission verdict is due at the end of the month. The EU is expected to issue its ruling before Boeing and McDonnell Douglas shareholders hold simultaneous meetings on July 25 to vote on the deal.

US company has drawn up proposals to allay Brussels concerns

The US press has reported that Boeing is prepared to drop exclusivity arrangements with Delta, American and Continental airlines in order to win regulatory backing for the merger. It is believed this would help satisfy Boeing's rival, Airbus Industrie, the European consortium.

Speculation has centred on another possible "remedy" – divestment of some McDonnell Douglas assets, including the Californian assembly plant where the company builds DC-10s.

Boeing is so far ahead of all rivals that it has been hiring replacements for workers who were shed just a few years ago. Last year it won orders for 717 aircraft, compared with 350 for Airbus and just 38 for McDonnell Douglas.

So far this year, Boeing has announced orders for over 130 aircraft worth more than $9bn. It needs McDonnell Douglas's workforce to help meet demand.

Europe hopeful on India imports deal

By Khozem Merchant in New Delhi

India yesterday unveiled an improved proposal to lift controls on consumer goods imports, which still falls short of demands made by its main western trading partners.

A European trade diplomat was "cautiously optimistic" India's "new flexibility" would yield the basis of a deal before talks end in Geneva tonight. The US, Japan and the European Union have threatened to go to the World Trade Organisation disputes panel if a stalemate occurs.

The revised Indian plan presented to WTO members yesterday envisages lifting controls on 2,700 consumer goods over some five to seven years, still a long way off the two to three years demanded by industrialised countries.

A deal may be struck if the Indian side agrees to remove controls on key consumer goods, farm products, cars and alcoholic drinks in the early years of the phase-out period. This would satisfy a central demand of the industrialised countries, which have sought quick access to the Indian consumer goods markets.

"Five years could only be discussed if the sectors that reflected our priorities were front-loaded," the diplomat said. In exchange, the trading partners could "show understanding to one of two sensitive areas such as agriculture".

In India, the authorities have privately conceded room for manoeuvre is limited. They want to play down the competitive fall-out on the agricultural sector, which could be exposed to cheap imports from European Community farmers.

India argues its economy cannot withstand sharp inflows of competitively priced foreign goods. It justified protection under Article 18 of the General Agreement on Trade and Tariffs, allowing countries experiencing balance of payments volatility to protect domestic sectors with high tariffs.

In January, the International Monetary Fund said India's balance of payments position could withstand an influx of imports. With foreign exchange reserves of $23bn, India could no longer use balance of payments weakness as an excuse for protecting its consumer markets.

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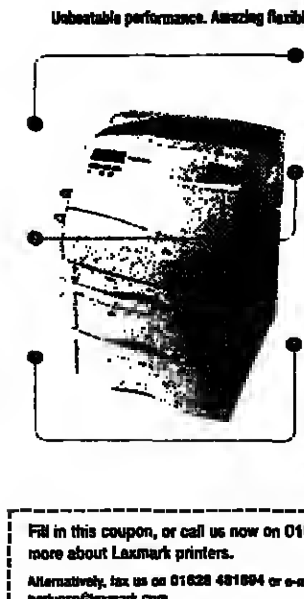
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INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

	UNITED STATES Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield	JAPAN Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield	GERMANY Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1987	11.6	8.5	6.82	8.39	3.12	10.5	11.5	4.15	4.64	0.55	9.0	7.3	4.03	6.14	2.21
1988	4.2	5.4	7.65	8.84	3.81	8.4	10.4	4.43	4.77	0.54	8.8	6.4	4.34	6.46	2.81
1989	1.0	4.2	8.99	8.50	3.43	4.1	10.6	5.31	5.18	0.48	6.3	5.7	7.12	6.90	2.22
1990	3.6	5.5	8.06	8.66	3.60	2.8	8.5	7.62	6.90	0.65	4.5	4.5	8.49	8.66	2.11
1991	8.0	3.7	5.87	7.86	3.21	5.2	2.0	7.21	6.40	0.75	5.1	5.6	9.25	8.42	2.38
1992	12.4	1.9	3.75	7.00	2.95	4.2	-0.4	4.28	5.24	1.00	7.1	8.1	9.52	7.80	2.45
1993	11.9	1.1	3.22	5.66	2.78	3.0	1.4	2.83	4.18	0.87	9.4	7.8	7.28	6.47	2.11
1994	8.2	1.4	4.67	7.08	2.85	5.4	2.9	2.12	4.20	0.78	9.6	9.0	5.36	6.86	1.77
1995	-0.2	2.1	5.93	6.57	2.61	7.6	3.0	1.12	3.39	0.96	6.7	0.6	4.53	6.82	2.00
1996	-3.2	4.9	5.41	6.43	2.15	13.7	3.1	0.48	3.03	0.75	10.5	7.5	3.31	6.21	1.83
2nd qtr.1996	-2.4	5.4	5.42	6.70	2.18	15.7	3.5	0.49	3.24	0.72	10.5	7.9	3.33	6.47	1.87
3rd qtr.1996	-3.8	4.4	5.49	6.77	2.20	13.4	3.5	0.51	3.11	0.75	10.6	8.2	3.27	6.34	1.81
4th qtr.1996	-4.8	4.5	5.45	6.35	2.02	12.6	3.1	0.42	2.82	0.77	11.1	8.1	3.18	5.89	1.68
1st qtr.1997	-3.9	4.8	5.47	6.56	1.87	8.7	2.8	0.44	2.43	0.86	10.8	7.7	3.19	5.72	1.62
June 1996	-2.4	5.0	5.48	6.90	2.17	18.3	3.8	0.46	3.19	0.71	10.4	7.5	3.38	6.57	1.84
July	-3.2	4.7	5.53	6.63	2.25	14.3	3.7	0.55	3.27	0.74	11.3	8.2	3.32	6.48	1.85
August	-3.9	4.4	5.42	6.62	2.18	13.6	3.7	0.53	3.14	0.76	10.9	8.5	3.29	6.30	1.81
September	-4.2	4.3	5.52	6.62	2.18	12.2	3.5	0.43	2.91	0.76	10.3	7.9	3.12	6.23	1.78
October	-4.3	4.4	5.43	6.54	2.08	11.0	3.7	0.43	2.75	0.76	11.8	8.2	3.12	6.00	1.73
November	-4.7	4.7	5.41	6.13	2.00	10.9	3.3	0.42	2.62	0.77	10.0	8.2	3.19	5.86	1.69
December	-4.3	4.9	5.51	6.29	1.89	10.0	3.1	0.42	2.48	0.80	11.3	7.8	3.23	5.79	1.61
January 1997	-3.8	4.9	5.47	6.56	1.90	10.0	3.2	0.44	2.49	0.86	11.1	8.7	3.14	5.79	1.65
February	-3.5	4.8	5.40	6.42	1.84	9.8	3.0	0.44	2.44	0.88	10.1	7.4	3.19	5.58	1.60
March	-4.5	4.5	5.55	6.70	1.87	9.3	2.8	0.46	2.36	0.89	9.8	7.0	3.28	5.76	1.58
April	-5.2	4.8	5.71	6.88	1.95	9.5	3.2	0.44	2.44	0.88	9.3	6.5	3.23	5.80	1.60
May	-4.9	4.7	5.69	6.70	1.81	9.0	3.0	0.47	2.65	0.81	9.3	6.6	3.17	5.80	1.62

	FRANCE Narrow Money	Broad Money	Short Interest Rate	Long Interest Rate	Equity Market Yield	ITALY Narrow Money	Broad Money	Short Interest Rate	Long Interest Rate	Equity Market Yield	UNITED KINGDOM Narrow Money	Broad Money	Short Interest Rate	Long Interest Rate	Equity Market Yield
1987	4.1	11.5	8.63	9.46	2.75	10.4	9.5	11.32	10.58	1.94	4.7	16.2	9.77	9.69	3.60
1988	3.9	8.3	7.94	9.06	3.59	7.8	8.7	11.24	10.54	2.71	6.8	17.3	10.41	9.82	4.46
1989	7.5	10.0	9.40	8.79	2.88	9.6	9.2	12.42	11.61	2.46	5.9	17.8	13.96	10.11	4.36
1990	3.8	9.3	10.32	9.92	3.19	9.3	10.1	11.96	11.87	2.64	5.3	16.1	14.82	11.56	5.07
1991	-4.9	2.4	9.62	9.03	3.58	7.3	8.5	11.83	13.20	3.45	2.4	7.9	11.58	10.06	4.97
1992	-0.2	5.4	10.36	8.57	3.55	6.9	7.7	13.86	13.29	3.63	2.4	3.5	8.74	9.09	4.91
1993	1.6	-2.2	8.55	6.75	3.21	4.7	7.4	10.22	11.23	2.35	4.9	3.5	5.90	7.40	4.01
1994	2.9	0.7	5.84	7.21	2.99	2.3	3.1	8.43	10.56	1.87	6.4	5.1	5.57	8.01	3.94
1995	7.0	4.3	6.60	7.53	3.17	0.2	0.4	10.36	12.22	1.72	5.6	7.4	6.77	8.18	4.15
1996	0.4	-3.5	3.94	6.32	3.05	0.6	3.3	8.75	9.43	2.18	8.7	10.0	6.11	7.79	4.08
2nd qtr.1996	7.1	0.7	3.96	6.51	3.02	-0.7	3.8	9.01	9.89	2.24	8.7	10.1	6.06	8.06	4.06
3rd qtr.1996	5.0	-1.0	3.85	6.36	3.18	1.4	4.1	8.59	9.39	2.49	7.2	9.6	5.83	7.85	4.13
4th qtr.1996	2.9	-3.5	3.48	5.85	2.82	3.5	2.8	7.92	7.89	2.26	7.2	10.4	6.28	7.54	3.96
1st qtr.1997	2.4	-2.5	3.35	5.57	2.83	7.0		7.29	7.44	1.97	8.7	10.7	6.34	7.39	3.76
June 1996	7.1	0.7	3.86	6.56	3.02	0.2	4.4	8.85	9.59	2.33	7.4	10.0	5.94	8.05	4.15
July	4.4	-0.1	3.84	6.46	3.15	0.8	4.3	8.66	8.45	2.46	7.1	9.2	5.80	7.91	4.21
August	8.8	-0.4	3.86	6.36	3.20	1.8	4.4	8.70	9.50	2.48	7.5	9.6	5.84	7.82	4.12
September	5.0	-1.0	3.75	6.24	3.13	1.6	3.7	8.39	9.18	2.53	7.0	10.1	5.67	7.81	4.06
October	5.1	-0.5	3.51	5.67	3.00	3.0	3.5	7.98	8.34	2.33	7.4	10.6	6.02	7.51	3.93
November	7.2	-0.7	3.47	5.64	2.90	3.9	2.7	7.24	7.72	2.26	7.3	10.9	6.40	7.56	4.01
December	0.4	-3.5	3.44	5.76	2.85	3.6	2.8	7.18	7.98	2.24	8.9	11.0	6.42	7.55	3.95
January 1997	0.8	-3.4	3.35	5.59	2.71	7.4		7.20	7.43	1.98	7.2	9.9	6.41	7.53	3.83
February	1.0	-3.4	3.33	5.53	2.82	7.6		7.39	7.15	1.86	6.4	11.2	6.29	7.17	3.73
March	2.1	-2.5	3.37	5.59	2.83	8.3		7.39	7.71	2.05	6.4	10.4	6.22	7.44	3.60
April	2.9	-1.9	3.40	5.73	2.86	7.9		7.09	7.73	2.18	6.0	10.3	6.46	7.61	3.65
May			3.48	5.70	2.82			6.83	7.35	2.22	6.1	11.1	6.65	7.16	3.66

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yields period averages of the gross dividend yield on the relevant FT-A world index.

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NEWS: ASIA-PACIFIC

Hong Kong handover: FT writers test the mood on both sides of the border and look to the future

Motherland has feast of patriotism

By Tony Walker in Beijing and James Harding in Shanghai

China last night celebrated Hong Kong's return to the mainland with a mass outpouring of patriotic fervour orchestrated by a propaganda machine bent on extracting maximum advantage from the occasion.

Across the country, from tiny rural hamlsts to large cities, the huge population marked Hong Kong's return jubilantly with aongs and dances. China's largest-ever television audience tuned in to the handover ceremony.

Some 100,000 peopls crammed Beijing's central Tiananmen Square for a gala performance by pop stars, massed choirs and dancers culminating in a fireworks display at midnight celebrating the transfer of sovereignty itself.

Eight years after the army crushed pro-democracy protests in and around the square, Tiananmen had once again become the focus of international attention. But China clearly hoped that last night's scenes of celebration and joy, beamed around the world from its most controversial landmark, would help erase some of the memories of 1989, when dozens of demonstrators were killed.

In Shanghai, China's largest metropolis and nascent financial centre, 10,000 packed the Bund, the city'a colonial-era waterfront, to embrace Hong Kong's return in song.

Shanghai's Nanjing road, China's premier retailing street, was jammed with shoppers taking advantage of "Welcome the return of Hong Kong" sales.

Banners strung across the street proclaimed: "Warmly welcome Hong Kong's return to the Motherland!"; "Wash away a century of national shame!"; "'One Country, Two Systems' is the ingenious formula to reunify the Motherland!" China's cities have been turned into a mass of colour with banners, lanterns and other adornments. According to the official Xinhua news agency, 100,000 red banners were deployed throughout Beijing alone.

China's celebrainry mood is being oiled by saturation TV coverage. State television began a marathon 72-hour broadcast soon after dawn yesterday devoted to the handover.

Special broadcasts on radio and TV feature pop stars and choirs from factories, schools and the People Liberation Army, performing such songs as "Singing in praise of our Motherland", "The Return" and "No Communist Party of China, No New China".

Today is the 76th anniversary of the founding of the Communist party and People's Daily, the party nswspaper, in a front-page commentary amplified the connectioo between its birthday and the handover.

"With irrefutable facts, history has declared to the world that without the Communist party of China.., the smooth return of Hong Kong could not have been possible," said the paper.

Tiananmen Square has witnessed epic events in the past half-century, but none compares with the handover celebrations – part concert, part fiesta, part propaganda exercise.

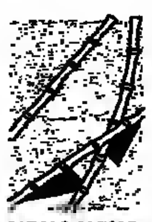
Performances carried by powerful loudspeakers echoed between monuments flanking the square – tbe Great Hall of the People to the west; Mao's mausoleum to the south; the Museum of Revolutionary History to the east; and the Gate of Heavenly Peace and Forbidden City to the north.

The seven hours of partying on Beijing's central concourse carried the theme "Beijing Blesses You, Hong Kong". Celebrations were due to an end with the ceremonial raising of China's national flag at dawn. The official China Daily summed up official sentiment in an editorial yesterday: "It will be a watershed day for history books... The return of Hong Kong realises a long-cherished dream of all people of Chinese origin. We share with the world the happiness of the grand family reunion."

The Beijing party will continue today with performances at the Workers' Stadium and a fireworks display.

President Jiang Zemin and other Chinese leaders return from the handover ceremony for the Beijing events, which include triumphal gatherings in the Great Hall of the People.

Former colony heads into the unknown



HONG KONG

To a severe Chinese bureaucrat, Hong Kong must seem a worrying place. Beijing sees its newly re-acquired territory as a botbed of "kung fu movies, karaoke bars and corrupt business," says Mr Michael Yahuda of the London School of Economics.

A degree of suspicion is inevitable for any government taking on a aophisticated population with a standard of living 60 times higher than its own. China is worried that its new subjects may turn out unruly and pollnts its own social development.

Its natural temptation might thus be to stifle Hong Kong's individual character. It matters much to Beijing that Hong Kong is now seen as an integral part of China even if its political and economic system is different. As to that system, one model admired by Mr Tung Chee-bwa, the territory's new chief executivs, is the compliant, orderly and prosperous Singapore.

But Hong Kong'a social values are complex and unique in Asia. Whether China could bend them easily to its own is another matter. Ironically, the handover has reinforced Hong Kong's own sense of pride in its own traditions as much as it has stirred Chinese patriotism among its citizens.

Singapore's communitarian democracy with its limits on individual rights and political debate would fit badly into the Hong Kong template. Moreover, Singapore justifies its tough regime by the need to build a sense of nationhood, and Hong Kong is not a country.

Equally bad models are the corrupt democracies of South Korea and Taiwan. Hong Kong people have less experience of democracy than these other regimes, but they have longer experience of the application of democratic values to government, particularly where the law is concerned. They expect high standards.

Hong Kong has one of Asia'a highest standards of living and a large middle class. Its population has always been transient, bnt since 1991 more than half its people were born in Hong Kong itself. Young people identify strongly with the territory even though they also feel Chinese.

Since Britain felt secure in its role as colonial master, it permitted more freedom of speech than some of Asia's authoritarian regimea. Successive governors maintained a rule of law and, in the last two decades at least, did much to stamp out corruption. They fostered a competent civil service with a tradition of vigorous and open policy debate. Unlike in China, decisions in Hong Kong are simply not handed down from on high. Still, Hong Kong has difficulty drawing up all these formative forces into a cohesive sense of its own ideotity.

According to Ms Elizabeth Sinn, history professor at Hong Kong University, there is a large difference between older people who were born in China and the baby boomers, born in Hong Kong, who grew up during the 30 years after the 1949 Chinese communist revolution when there was almost no contact with the mainland.

> People feel both proud to be from Hong Kong and proud of their Chinese heritage, even if they do not always support the Communist party

With the opening up of China since Deng Xiaoping's reforms, contacts have resumed. People feel both proud to be from Hong Kong and proud of their Chinese heritage, even if they do not always snpport the Communist party. "Reunification really began in the late 1970s when people went back to China to set up factories, married women there, and a lot of old peopls went back to die in their villages," says Ms Sinn.

Research by Mr Michael de Golyer of the Baptist University points up other differences within Hong Kong. Perhaps because they are better educated – free secondary school education only started in Hong Kong in 1978 – young people are more outspoken than their elders. The conservative bias of Mr Tung's circle of advisers does not take this into account, he says. Failure to consult could he a source of tension.

Hong Kong's remarkable passion for newspapers belies the received wisdom that the territory is indifferent to politics. Here again, differences in background may matter. Ms Elsia Tu, the British missionary who has waged heroic battles in defence of Hong Kong's poor since the 1950s, says local people mostly want improved social conditions with better housing, pensions and job security. They are not interested in political freedom.

Yet the middle-class readers who devour Hong Kong's 50 separate newspapers display a keen interest in the world around them. By and large, they have shown realism in accepting China's decision to abolish the legislature elected under former governor Chris Patten's democracy reforms. But the public outcry that followed the announcement of curbs on civil liberties shows a limit to that tolerance.

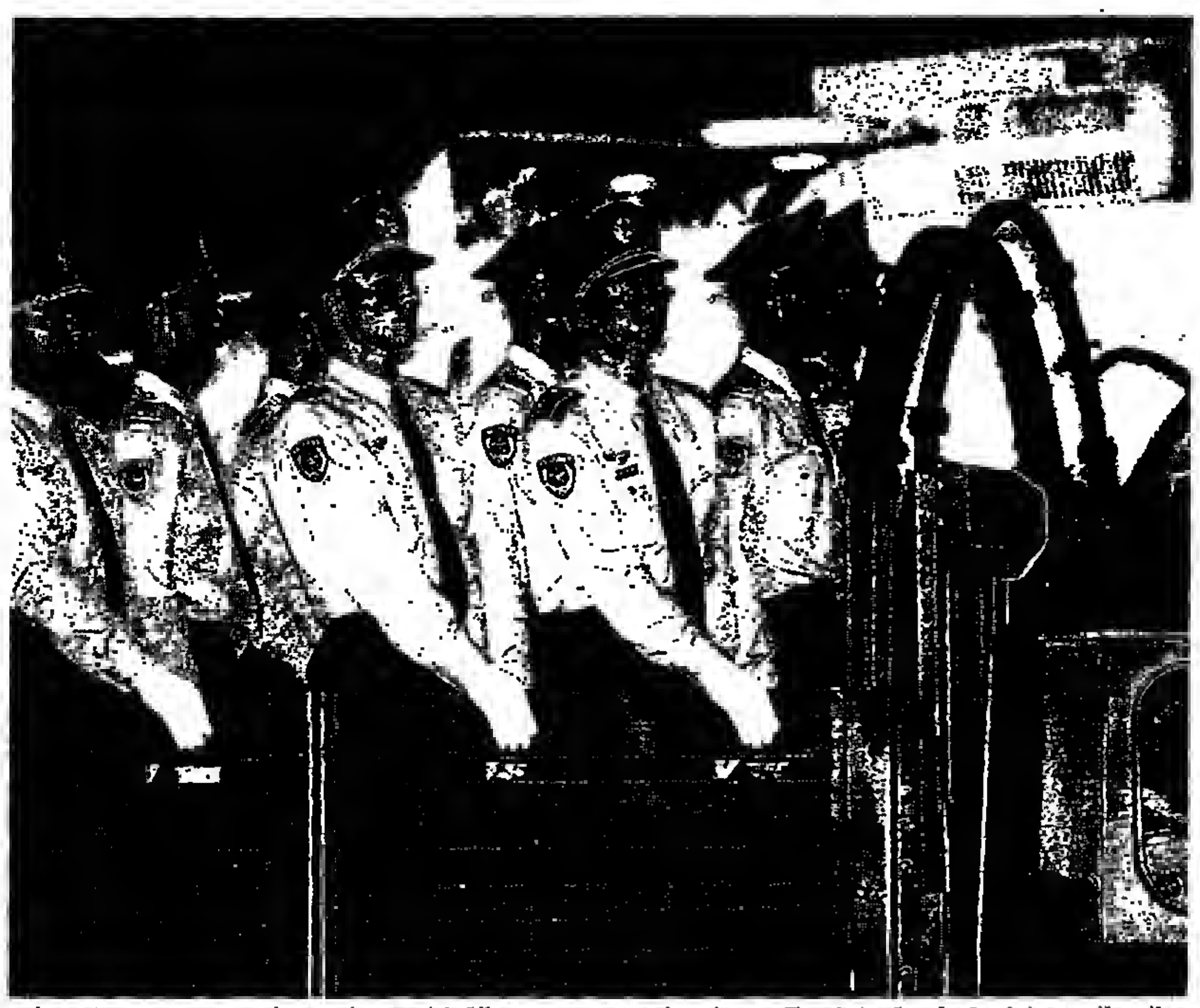
An abhorrence of corruption unites almost everyone. "If you don't deal with corruption, you will have the same problems as we had in the 1960s when we had riots," says Ms Tu.

But many young people are cynical about the prospects for the longer run. Mr Patrick Wong, president of the Hong Kong University Students' Union, doubts whether China will ever allow a fully elected local legislature or a popular vote for the position of chief executive. "I guess freedom of expression will gradually decrease over the years."

For the time being, though, Mr Wong and others of his generation will continue to want their say. Proudly displayed on the terrace outside the students' union is the "Pillar of Shame" sculpture by the Danish artist Jens Galschiot which commsmorates those who died in the Tiananmen Square massacre.

The sculpture is in a public place, though its position inside the campus obscures it from public view. It is an uneasy compromise, but one of a sort Hong Kong will have to learn to live with for a long tims to come.

Peter Montagnon



This first group of 509 soldiers of the People's Liberation Army arrive at Hong Kong's border checkpoint more than three hours before yesterday's handover. Four thousand more PLA troops are scheduled to enter Hong Kong today. Reuter

Partying and protests as the PLA arrives

By John Ridding in Hong Kong

As empire bowed out of Hong Kong last night, it left in its wake a night of ritual, revelry and wariness about the mornings after.

Even before the Royal Yacht Britannia headed south from Victoria Harbour, under sombre skies, a vanguard from the People's Liberation Army had swept across the border to lay claim to China's sovereignty.

"You must love the people of Hong Kong," proclaimed General Liu Huaqing, as he sent the soldiers on their way. "Do everything according to the law. I hope you can bring justice into full play and resist all kinds of evil winds."

Brash parties across the territory betrayed few fears about their new guardians or the One Country, Two Systems formula designed to underpin Hong Kong's prosperity after the midnight handover. But many were in two minds as the clock ticked to the end of British rule.

"Come back democracy, not colonial government," said Ms Emily Lau, an independent legislator booted from office by the establishment of a Beijing-appointed chamber. She has tied a yellow ribbon around the Legislative Council building to publicise her plea.

A crowd of supporters awaited the arrival of Mr Martin Lee, leader of the Democratic party, who had promised to scale a ladder to deliver a speech from the building's balcony.

"We will continue to speak out," said one demonstrator, seated on the rain-drenched ground watching a film of the 1989 suppression of pro-democracy protests in Beijing. "We want to be part of China, but we don't want to be part of that," he added, gesturing towards the screen near the Legislative Council.

Surrounded by gathering crowds, some protesting, others celebrating the transfer of sovereignty, the colonial legislature stuck out among the territory's tower blocks. Alone among the downtown buildings, it was bereft of lights and symbols proclaiming the handover.

Red bauhinias, symbol of the new administration, blazed from almost every harbour-front building. Alongside were pink dolphins, native to the Pearl River estuary and mascot of the handover celebrations.

As one emotional expatriate remarked, the pink dolphin is an endangered species. Hong Kong, too, he said, would never be the same. No post-colonial reaction, no dramatic decline was to be expected, he believed.

But neither could Hong Kong remain unchanged with the influence from the mainland. "It will be inevitable that this place becomes more like China," he declared. "It has been doing so for many years."

For many others, the big concern was where to be seen or which party to attend. "I have to get from the Peking opera in a ball at the Peak," said the wife of one wealthy Chinese businessman. "The big parties will start tomorrow," she added, referring to a month of patriotic performances and celebrations.

In the coming weeks, Hong Kong will play host to orchestras, dance troupes and concerts. Ten thousand pigeons will be released today, to head home to China in a symbol of reunification. A flotilla of barges will cruise Victoria Harbour firing lasers and fireworks.

That harbour has been transformed since the first British trading ships anchored there more than 150 years ago. It has been narrowed to a channel by the reclamation of land for commerce and housing and the convention centre where the union flag was lowered at midnight.

The question on everybody's mind, as the five-star red flag was hoisted, was how far the changes it heralded would extend beyond ths symbols of sovereignty.

Clues to how life will be after the handover

How Hong Kong changes after the handover will be as hard in monitor as it will be important for the territory's residents and international business.

Ten clues to the post-colonial climate are:

1. Comings and goings. Diplomats estimate that between 500,000 and 600,000 of the territory's 6m people have foreign passports. Many more have a right of abode overseas. Many of these may vote with their feet should the transition prove difficult. Trends to watch are emigration figures, which fell to 40,300 last year after peaking at 66,200 in 1992. Also worth scrutiny is the number of foreigners in Hong Kong – which has climbed from 251,200 at the end of 1991 to 438,000 at the beginning of this year.

2. The message from the markets. Yields on 10-year Hong Kong exchange fund notes are about 7.2 per cent, some 55 basis points above 10-year US Treasury bills. This demonstrates confidence in the currency link with the US dollar and with underlying economic prospects. So, too, does the proportion of banking deposits in Hong Kong dollars, which has risen from 52 per cent at the beginning of 1995 to 60 per cent today. Should the yield gap rise or the share of Hong Kong dollar deposits fall, jitters would be apparent.

3. International business. Hong Kong's prospects depend to a large extent on its attraction as a regional business centre. The number of foreign companies registered in Hong Kong has been growing steadily, from 4,310 at the end of 1995 to 4,600 at the turn of this year. That trend could reverse if the business playing field is tilted by the transition.

4. Where is Martin Lee? The leader of Hong Kong's Democratic party, Mr Lee will be booted from the territory's elected legislature when it is replaced by a China-backed body on the transfer of sovereignty. Mr Lee has made it clear he wants to remain active in politics and to return to the legislature due to be formed by elections in the first half of 1998. His presence in the new body would be a positive signal about electoral rules and conditions and about the new administration's tolerance. His absence from politics, or exile from Hong Kong, would send the opposite message.

5. Churches and religion. China has promised that freedom of worship will continue after the handover, but there are fears within the religious community of growing pressures. At present there are 78 Christian churches, 600 Chinese temples, four main places of Moslem worship, one Hindn temple, one Sikh temple and one synagogue.

6. Marches and movements. New laws on demonstrations have drawn criticism from pro-democracy forces and foreign diplomats. While the government-in-waiting insists civil liberties will be maintained, attendance at marches will signal public perceptions about social freedoms. More than 50,000 were present at a vigil this month to commemorate the 1989 Tiananmen Square massacre. Over the previous few years, attendance was between 30,000 and 40,000.

7. Corruption. This biggest fear among Hong Kong people is that graft will rise after the handover. Not only would this make the territory a worse place to live and do business, it would also undermine the credibility of its political institutions. After a jump in 1992, corruption reports have stabilised at about 3,000 a year. A surge in reports could signal trouble. So, too, could a fall in the proportion of complainants willing to identify themselves – currently 70 per cent.

8. Domicile decisions. Nearly two-thirds of Hong Kong's listed companies are domiciled overseas – 379 out of 610. Tax reasons are less important than considerations of corporate security and the rule of law, given the territory's tiny fiscal burden. So, should the ratio rise, that would be a warning.

9. Language. An international business city, Hong Kong's prospects will be partly determined by standards of English. Some 38 per cent of the population is fluent in English, but employers fear that standards may fall. After the handover, schools will have the option to teach in Cantonese rather than English, and there are falling numbers taking the English language certificate of education exam. Of the 75,058 that sat the test last year, 52.5 per cent scored what is generally considered a pass rate.

10. Rolls-Royces. Hong Kong has long been the hottest market for the British luxury car. As a feel-good purchase for the territory's high rollers and a measure of any anti-British backlash, sales will provide useful pointers. After a slump in 1995, when just 43 took to the streets, turnover has rebounded to 51 so far this year. Mr Spencer Lam, sales manager for MD Motors, the Rolls-Royce distributor, says the figures show there is little to fear from any anti-British sentiment. "China wants Hong Kong to be its showroom," he says.

John Ridding, Louise Lucas

Japanese to close development bank

The Japanese governmsnt said yesterday it would close Japan Development Bank (JDB), the quasi-government institution that makes long-term loans at low rates to the private sector, mainly for domestic infrastructure projects, Gwen Robinson reports from Tokyo.

The decision, announced by the finance minister, Mr Hiroshi Mitsuzuka, is seen as a blow for the powerful Finance Ministry, whicb oversees the bank and has repeatedly opposed efforts to close it. Mr Mitsuzuka said he would "take full responsibility for convincing ministry officials" to support the abolition plan.

The plan is part of an ambitious reform programme, which aims to streamlina government-affiliated institutions or abolish them altogether. JDB, established in 1951, is capitalised entirely through government funds at Y323bn ($2.8bn) and has 19 offices, eight of them overseas. At the March 31 end of Japan's fiscal year, JDB's outstanding loans amounted to Y15,523bn.

Mr Mitsuzuka said the tims frame for ths bank's closure would be decided by the prime minister, Mr Ryutaro Hashimoto. There are no plans now to shift the bank's functions to other institutions, he added.

Thai finance houses hit again

By William Barnes in Bangkok

Thai regulators turned the screw on shaky finance houses again yesterday by imposing a 14 per cent ceiling on the interest rates they can offer the holders of promissory notes.

This will help to alow the economy by bringing interest rates down generally and ahould ease the cost pressures on finance bouses themselves. But ths move can only encourage the flight of depositors to quality lenders.

The authorities are now clearly committed to squeezing many of ths weakest of the country's 91 finance houses out of existence.

Sixteen non-bank lenders were suspended from operating on Friday and given a fortnight to come up with plans to merge with stronger institutions.

The move has been widely welcomed as the first concrete signal that the government is prepared to see blood shed in cleaning up an industry that has been devastated by over-enthusiastic lending, especially to property developers, in the first half of this decade. Few, if any, of the 16 – which include some of the sector's biggest names – are expected to survive as separata entities.

Observers have taken with a pinch of salt the televised promise on Sunday night by Gen Chavalit Yongchaiyudh, the prime minister, that no more firms face being forced out of business.

The other two dozen bouses that do not have the protection of bank parents are said to be in the process of raising capital – an excruciatingly difficult exercise in the circumstances.

This was underlined yesterday when it was confirmed that Finance One, a member of the unfortunate 16 and once the country's biggest merchant bank, had failed dismally with a Bt8.2bn ($240m) rights issue – less than 1 per cent being taken up.

Central bank officials made it clear in recent days that acquisitive companies need only take over the good asssts and liabilities of a troubled company; the original management can be left with the unenviable task of managing the unwanted assets out of existence before switching out the lights.

Yesterday's announcement, that finance houses and banks will be restricted to paying promissory note holders and depositors 14 per cent and 12 per cent interest, respectively, answers bank criticism that non-bank rates of up to 20 per cent have forced them to keep their own rates firm.

Government guarantees to stand behind all deposits have allowed customers to take advantage of the higher rates offered by some of the weakest firms, Mr Neil Saker, SocGen Crosby'a regional economist in Singapore, pointed out.

"Money will now flow back to the good banks which could be awash with cash."

هكذا من الاصل

NEWS: THE AMERICAS

US economy on moderate growth path

By Gerard Baker in Washington

US consumers' spending increased 0.3 per cent in May from a month earlier, further evidence the economy remains on a moderate growth path heading into the summer.

The increase in spending marked an acceleration from the 0.1 per cent rise recorded in April, and was the fastest rate of growth since January, the Commerce Department reported yesterday. Personal incomes also grew by a seasonally adjusted 0.3 per cent in May.

Consumer demand has slowed significantly from its frenetic pace of the first two months of the year. Consumption rose at an annual rate of over 8 per cent in January and February, a surge that was the main factor behind a 5.9 per cent increase in gross domestic product in the first quarter.

In the three months to May, spending rose at an annual rate of just under 4 per cent, a slower pace, but one that still suggests demand remains strong. Most economists think the economy grew at an annual rate of about 2-2.5 per cent in the second quarter of the year, in line with the rate of growth normally considered consistent with stable inflation in the long term.

Another indicator of the economy's continuing strength was a sharp increase in new home sales in May, reported by the Commerce Department yesterday. New sales rose 7 per cent from a month earlier, much faster than most economists had expected. The increase takes the rate of home sales in May back to the strong performance recorded in the first three months of the year, following a slump in April.

Neither figure is expected to have much effect on the deliberations at this week's meeting of the Federal Reserve's open market committee which will consider whether or not to raise US interest rates.

The Fed left short-term rates unchanged at its last meeting in May and is expected to remain on hold again at the meeting today and tomorrow. The central bank lifted rates in March in response to the rapid pace of growth in the first quarter, but, as the economy has slowed since then, Fed policymakers appear to believe inflationary pressures have eased sufficiently to permit them to maintain a steady stance.

But the longer-term outlook for US monetary policy remains uncertain. Though robust demand growth in the past year has not been accompanied by higher inflation, the Fed will remain on the lookout for any signs that costs, especially wages, might accelerate in the coming months.

A derelict railway is to be revived in drive to restore crumbling infrastructure

Peace dividend for battered Guatemala

Some 800km of derelict track and a burnt-out wooden terminal building rotting in one of the capital's seedier districts are monuments to the sorrowful state of Guatemala's transport infrastructure.

But if the Pittsburgh-based Railroad Development Corporation (RDC) achieves its objective of getting trains moving again next year, the abandoned national railway could become a symbol of the government's pro-private sector modernisation.

The treaty that delivered peace last December after 36 years of civil war created the conditions necessary for a drive to renew the country's infrastructure.

Mr Henry Posner, RDC's president, visited Guatemala last week to finalise a 50-year concession to the track awarded to the company early last month.

"To my knowledge the rehabilitation of a railroad system that has been completely shut down has never been tried before," says Mr Posner.

RDC operates the 600-mile-long Iowa interstate railway and a 5,000-mile route in Argentina. The company has been keeping an eye on the Guatemalan rail network for several years, even before trains ground to a halt two years ago.

The first phase of the RDC Guatemalan project foresees a $10m investment in redeeming the track that links the capital to the country's big Atlantic and Pacific ports. But Mr Posner says the company is prepared to invest "many times that amount" awakening the dormant sleepers that stretch north to the Mexican border and south to El Salvador.

"We are looking towards the development of the [import and export] market in the long term... providing better tariffs, and more security for cargo transportation that is currently moved 100 per cent by truck," he says.

Meanwhile, trucking should also get a boost from a government drive to upgrade the country's 13,233km road network, only 26 per cent of which is paved. Although the administration of President Alvaro Arzu, a businessman turned politician, follows a policy of contracting out road projects to private companies, it is not relying on the private sector to take the initiative.

Thousands of families have occupied Guatemala's defunct railway — Scott Sady

"Guatemala is still very backward and you have to give them [business] a helping hand," says Mr Mariano Rayo, special adviser to the presidency.

Being at peace helps. When leftwing rebels and the government agreed their peace last December the former guerrillas won the chance to participate in legal politics. The government gained access to unprecedented levels of international funding. Multilateral and bilateral donors gathered in Brussels to review the Guatemalan case and promised $1.9bn in peace-related finance over the next four years.

"About 20 per cent of the peace programme will be dedicated to roads, and double that proportion to infrastructure as a whole," says the presidential commissioner for international co-operation, Mr Richard Aitkenhead.

"Improving basic infrastructure is one of the key vertebrae in the backbone of the government's economic policy," says an economic analyst, Mr Pablo Rodas Martini.

The strategy could also help the ruling National Advancement party (PAN) extend its support base beyond its traditional bastion in the capital in preparation for elections in 1999.

"Privatisation is complementary to this [infrastructure] policy," says Mr Rodas. "For one thing the state has virtually withdrawn from road construction, as private companies do the work with international money." But as soon as the concept of infrastructure is widened beyond transportation the privatisation component becomes more problematic.

Leasing off a defunct rail network and contracting out roadworks the state is unable to carry out are the least controversial elements of the Arzu administration's all-embracing privatisation policy. Plans to put the state-owned telecoms company, Guatel, on the market by July have been postponed as a result of gathering political opposition. The government will have to impose unpopular rate increases before it can even think of selling off the main electricity companies.

"Guatemala is giving out mixed messages to foreign investors," says Mr Rodas, pointing in particular to recent legal wranglings holding up the concession of a cellular telephone frequency.

Even RDC is running up against problems rooted in the poverty that affects more than three quarters of the population.

Mr Posner's agenda in Guatemala included the issue of what to do about the thousands of families living in shacks along the railway line.

The governmeot is committed to handing RDC a squatter-free track but the families do not want to leave.

Nonetheless, Mr Posner is confident the government will find a solution. The post-war "improvement io the [investment] climate based on the perception of Guatemala that we have been receiving from the capital markets in the US" has given him added confidence in the future.

Johanna Tuckman

AMERICAS NEWS DIGEST

Deadline for US welfare

State governments in the US face a deadline of today to put into place programmes to implement welfare reform, the biggest American social policy experiment in decades.

The law ending six decades of federal-guaranteed assistance for the poor is nearly a year old, but today is the deadline set by it to force state implementation.

State and local governments are already operating a wide array of experimental plans to help put welfare recipients to work. The law issues broad requirements: half the welfare caseload must be working or in "work related activities" such as community service by 2002; 90 per cent of two-parent families must be working within two years. No one will receive welfare payments for more than five years in total.

But beyond that, states can design their own programmes. They receive a lump sum of federal money for welfare payments. They determine how it is spent and who receives it.

Judging the effect of programmes so far is difficult. Welfare rolls have fallen by 19 per cent over the past four years, but much of this could be explained by strong economic growth sucking the poor into the labour market. *Patti Waldmeir, Washington*

Caricom seeks market details

Leaders of the 14-member Caribbean Community (Caricom) will discuss the final arrangements for creating a common market by 1999, when they meet on Jamaica's north coast today. The community has been struggling to create a common market for the past 10 years.

It has managed to created a customs union, and hoped to establish a regional capital market in 18 months.

Delegates say the annual summit is overshadowed by increasing concern that the economies of some members will be damaged by a WTO ruling that aspects of the European Unioo's banana import regime are unfair. The EU favours imports from former European colonies in Africa, the Caribbean and the Pacific.

The summit will also consider applications from Haiti and the British Virgin Islands for membership of the community, and will discuss a request by Cuba for a free trade treaty, similar to that which Caricom has with Colombia and Venezuela. The community is negotiating trade treaties with the Central American common market and the Dominican Republic. *Canute James, Montego Bay*

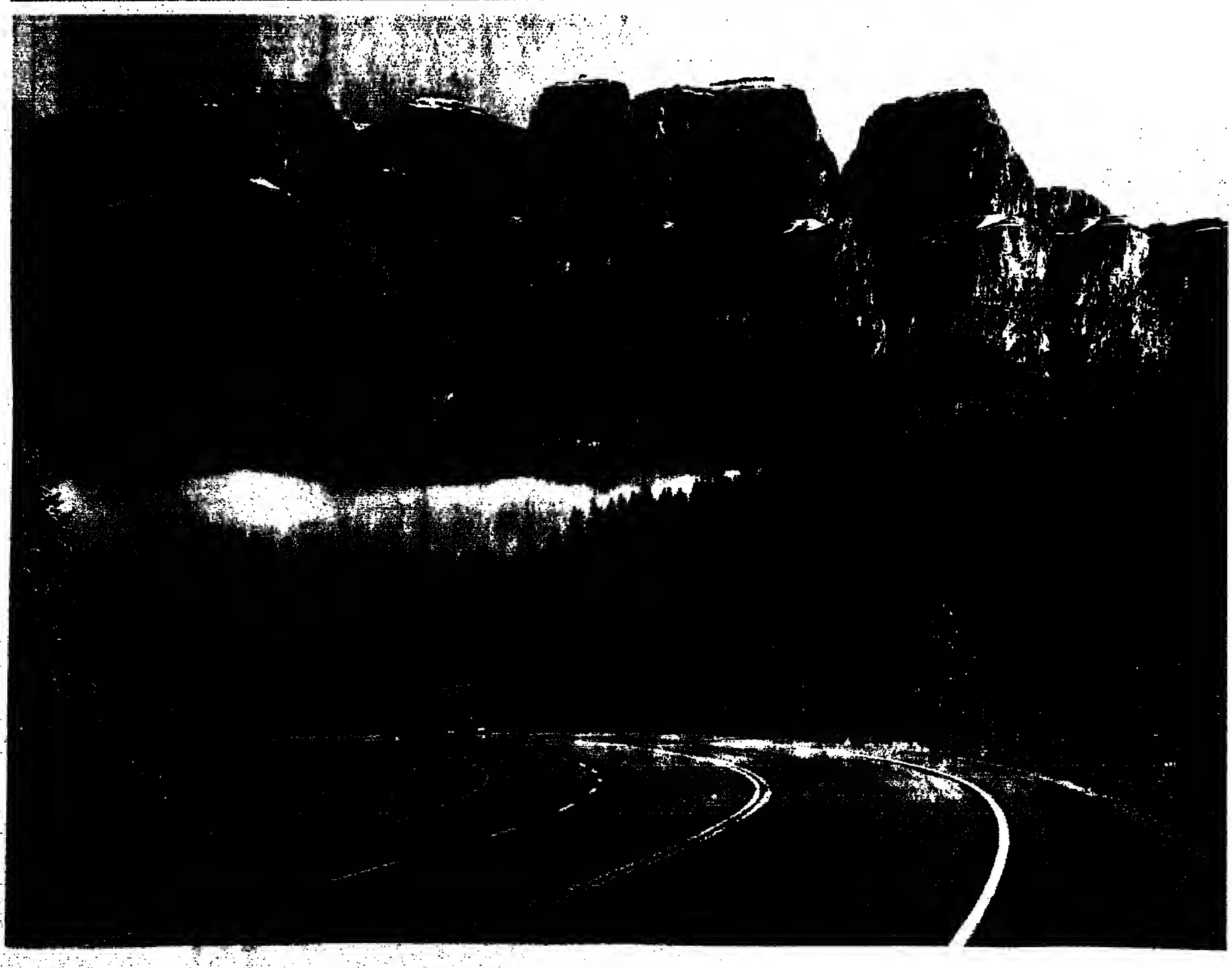
Montserrat eyes evacuation

The government of Montserrat is considering the evacuatioo of about 1,500 people who are threatened by an active volcano but who cannot be accommodated in emergeocy housing in the safe northern section of the island, the governor's office said.

"A full-scale evacuation is considered extremely unlikely at this time," he said. The truculent Soufriere Hills volcano, which became active two years ago after being dormant for several decades, killed eight people in an eruption on Wednesday. Ten others are missing and feared dead.

Helicopters from HMS Liverpool, a British warship moored off the island, have been flying search and rescue missions.

Almost half of the island's 11,000 people have left in the past 18 months, and Plymouth, the capital, has been evacuated. *Canute James*



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NEWS: INTERNATIONAL

Saudis pull out of economic summit

By David Gardner, Middle East Editor

Plans for a fourth Middle East economic summit, scheduled for Qatar in November between the Arab states and Israel, suffered a potentially fatal setback yesterday when Saudi Arabia said it would not attend and advised its Qatari neighbours "to drop this conference".

This unusually forthright Saudi statement, made by Crown Prince Abdullah to the Beirut daily As-Safir, follows months of lobbying against the summit by Syria. Syria is seeking to reinstate an Arab boycott against Israel because of the intransigence towards Arab-Israeli peace shown by the government of Mr Benjamin Netanyahu, Israel's prime minister.

The US-becked economic summits started in Casablanca in 1994, and were intended to underpin the peace process by building cross-border links between governments and businessmen.

Last year's gathering in Cairo went ahead, even though Mr Netanyahn said his hardline coalition would not continue returning conquered Arab land in exchange for peace. It centred, however, more on Arab economic integration than business links with Israel.

But in March, Israel began building the new Jewish settlement of Har Homa, which would seal off Arab east Jerusalem from the Palestinian West Bank, and pre-empt definitive peace talks designed by the 1993 Oslo agreement to settle the status of occupied Jerusalem.

The Har Homa decision led to the breaking off of all negotiations between Israel and the Palestinians, and the 22-nation Arab League in April voted unanimously to roll back the links built with Israel through the peace process. East Jerusalem, conquered by Israel in the 1967 Six Day war and claimed by Palestinians as the capital of the independent state they hoped Oslo would deliver, houses Islam's third holiest shrine and is the single most inflammatory issue in the Arab dispute with Israel.

At a meeting last week of the Arab allies in the Gulf war coalition against Iraq – Egypt, Syria, and the six-nation Gulf Co-operation Council dominated by Saudi Arabia – Syria argued that going ahead with the summit would flout April's Arab League resolution to freeze links with Israel.

Qatar complained it was under US pressure to go ahead and that Egypt – which receives more than $2bn a year in US aid – did not face Arab pressure to cancel last year's Cairo meeting.

Arab governments feel the Clinton administration has compromised its peace mediation role through bias towards Israel, and are incensed over last month's US Congress vote to recognise all of Jerusalem as Israel's capital.

The status of the Doha summit now appears to hinge on what stance Egypt adopts.

Jordan scraps all foreign exchange curbs

By Judy Dempsey in Jerusalem

Jordan's central bank has scrapped all foreign exchange controls, paving the way for attracting foreign investment and tapping large reserves held by Jordanians outside the country.

The liberalisation of foreign exchange transactions, announced late on Sunday by Mr Ziyad Fariz, governor of the central bank, coincides with plans to reduce the government's stakes in stocks and utility companies.

"This is more than a step in the right direction," said Mr Khaled Masri, investment analyst at the Arab Investment Bank in Amman. "We have waited a long time for this. This could open up the Jordanian economy and give the capital markets a much-needed boost."

The measures, among others, allow Jordanians to hold unlimited amounts of foreign currency in domestic banks. Until now, the limit was JD500,000 ($715,000). Limits on deposits held in foreign currency accounts, hitherto set at JD1m, have also been lifted.

Jordanians travelling abroad will no longer be restricted to taking out JD5,000, subject to the approval of the central bank.

Jordanians are estimated to hold $10bn-$20bn outside Jordan, funds they have been unwilling to invest at home until they see greater foreign currency reforms and more transparency in the capital markets. Foreigners are restricted from holding majority stakes in companies listed on the Amman Stock Exchange.

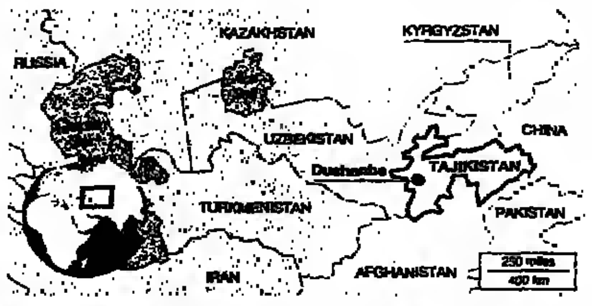
Its total market capitalisation is $4.7bn (£2.9bn), but more than a third is held by the Arab Bank. The state still controls majority stakes in the blue chip companies, including potash, phosphates, cement and utilities.

The central bank is confident it can support the foreign exchange measures, since foreign currency reserves amount to $1bn, equal to three months' exports, as Jordan continues to find new markets following the collapse of its exports to Iraq in the early 1990s.

The trade deficit is $2bn, nearly a third of gross domestic product.

Inflation is running at an annual 4 per cent but interest rates, at 16 per cent, have hit exports and credit facilities. Despite this, the economy is set to grow 6 per cent this year against 5.2 per cent in 1996.

Tajikistan peace agreement leaves unanswered questions



Over the next few weeks, thousands of Tajik opposition fighters will lay down their arms in their sanctuaries in northern Afghanistan, cross the Afghan-Tajik frontier, and make their way to 10 assembly points inside Tajikistan, as the five-year Tajik civil war comes to a close.

At least, that is what is meant to happen. The official end of the war, which broke out after independence in 1991, came on Friday, when Mr Imomali Rakhmonov, the Tajik president, and Mr Sayid Abdullo Nuri leader of tha Islamic opposition, signed a peace treaty brokered by Iran and Russia in Moscow. It was the first comprehensive peace accord in a post-Soviet conflict zone which claimed the lives of more than 40,000 people and forced many more from their homes when radical Islamic guerrillas seized power from the formerly Communist government of Mr Kakhar Makhamov.

The Islamists were defeated in 1992 with help from Russia but continued to fight Mr Rakhmonov's government.

But as Mr Nuri's fighters make their way back home, some observers are pointing to uncertainties in the accord which may spell disaster.

For example, the Tajik government will hand over, as part of tha accord, 30 per cent of its seats to opposition representatives, retaining 50 per cent for itself, and giving the remaining 20 per cent to independents. But which seats these are has not been spelled out yet.

"What is power in Tajikistan?" asked a former prime minister and now opposition leader, Mr Abdul Malik Abdulajonov, in an interview. "Power is weapons. Which are the ministries with the weapons? The interior ministry. The defence ministry. The security ministry. Is Rakhmonov going to give up any of those? No way."

The accord also calls for a force of 460 armed opposition fighters to enter the capital, Dushanbe, to provide security to the National Reconciliation Commission, a joint committee which is to handla the integration of the opposition into the government.

Another potential stumbling block is that the accord is seen by many Tajiks as an agreement forced by geopolitical logic rather than internal consensus. Some key figures, who for the moment have no international patrons, have been left out.

The war in Tajikistan is a tale of three cities, and some observers say peace has only been made between two of them. Mr Rakhmonov comes from Kulyab, as do about 80 per cent of high-level Tajik officials. The Islamic opposition comes mostly from Garm, a back-country, mountain city with a conservative Islamic tradition.

Mr Abdulajonov, however, comes from Khojent, the seat of power in Soviet times. Nearly every Tajik Communist party first secretary in 70 years has come from "Leninabad", as it was called, and the region boasts most of the country's industrial capacity.

The Tajik peace process is considered by most observers to have been be driven by the rapprochement between Russia and Iran over the last year as both countries confronted the growth of the Taliban movement in Afghanistan. Russia had supported the Tajik government while Iran supported the opposition.

But with the fall of Kabul last year, both Russia and Iran put pressure on their clients In December, the two sides sat down to hammer out a tentative peace agreement under the watchful eye of Afghan President Burhanuddin Rabbani, who was under pressure to deliver an agreement in exchange for Russian support against the Taliban.

The accord, however, leaves the Khojentis with only a minority share of power.

A senior UN official echoed the concern of many about the future geographic distribution of power in Tajikistan.

"The current agreement calls for 50 per cent of the government to go basically to the Kulyabis, then 30 per cent to the opposition, to Garm, then 20 per cent for someone else," he said. "This is probably for the Khojentis. I don't know if this will be enough."

Charles Clover

INTERNATIONAL NEWS DIGEST

Rand falls to 5-month low

The South African rand fell to its lowest level in five months yesterday as banks stocked up on dollars ahead of a milestone relaxation of foreign exchange controls from today.

But the country's financial markets remained generally upbeat, despite the weaker currency and a fall in the gold prica. Most analysts expect the relaxation of controls to occur without triggering a big capital flight or a run on the rand.

Individual South Africans will be allowed to invest R200,000 ($44,000) offshore from today, the first time they have been able to export capital since the imposition of current-exchange control regulations in 1961. The rand closed at 4.5295 against the dollar, its lowest level since February 5. *Reuter, Johannesburg*

Lowdown on bank chiefs

Half of all central bank governors have studied in North America or the UK and almost as many come from commercial banking as were promoted from within the institution, according to a naw book on the world's central banks. It also finds that fewer than half of governors and their senior colleagues are married.

The average age of the 105 governors is 53 – the G10 average is 63, while the average for the former Soviet Union and eastern Europe is 42, according to Fleming's Who's Who in Central Banking, published today. The oldest is the Fed's Mr Alan Greenspan at 71, the youngest is the Bank of Albania's Mr Kristaq Luniku at 35.

The book surveys 103 senior officials alongside the governors and finds that only 45 per cent are married with 38 per cent having children: top of that league are the International Monetary Fund chief, Mr Michel Camdessus, and the Palestinian Monetary Authority governor, Dr Fouad Hamdi, with six each. *Tom Lynch, London*

Fleming's Who's Who in Central Banking, from Central Banking Publications, 27 Chancery Lane, London WC2A 1PA: £85.

Backing for credit risk gauge

Efforts to establish an industry consensus on modelling credit risk will move a step forward this week when a group of eccountants, ratings agencies and international banks will endorse the CreditMetrics product devised by J.P. Morgan, tha US investment bank. Standard & Poors, Moody's and four of the big six accountancy firms will become co-sponsors of CreditMetrics, which aims to produce a mathematical measure of the riskiness of a credit portfolio. *George Graham, London*

Levy future in balance

Mr David Levy, Israel's foreign minister, yesterday stopped short of announcing his resignation, but said he would decide in the coming days "on the continuation of my membership in tha government".

His remarks at a news conference added to the instability of Mr Benjamin Netanyahu's government as well as speculation over whether it would survive its four-year term dua to expire in late 1999. Mr Levy complained about being left in the dark over policy and relations with the Palestinians. *Judy Dempsey, Jerusalem*

Rich pickings in science, Page 14

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- *103 En suite letting bedrooms*
- *Lounge, American theme bar and restaurant*
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Offers in excess of: £6,750,000 - Freehold

Watermill Hotel
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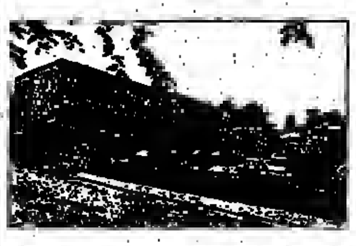
- *Public bar and restaurant*
- *2 meeting rooms*
- *Extended and converted 17th Century Flour Mill*

Offers in excess of: £1,250,000 - Feuhold

Stakis Perth Hotel
West Mill Street, Perth.
- *Prime Town Centre Hotel*
- *76 En suite letting bedrooms*
- *Lounge bar, bistro, restaurant*
- *Function Suite and two meeting rooms*
- *Car Park (50)*

Offers in excess of: £4,500,000 - Long Leasehold



Stakis Falkirk Hotel
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- *Range of function/conference rooms*
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Offers in excess of: £3,250,000 - Feuhold

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- *6 function suites, various meeting rooms*
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Offers in excess of: £8,000,000 - Feuhold

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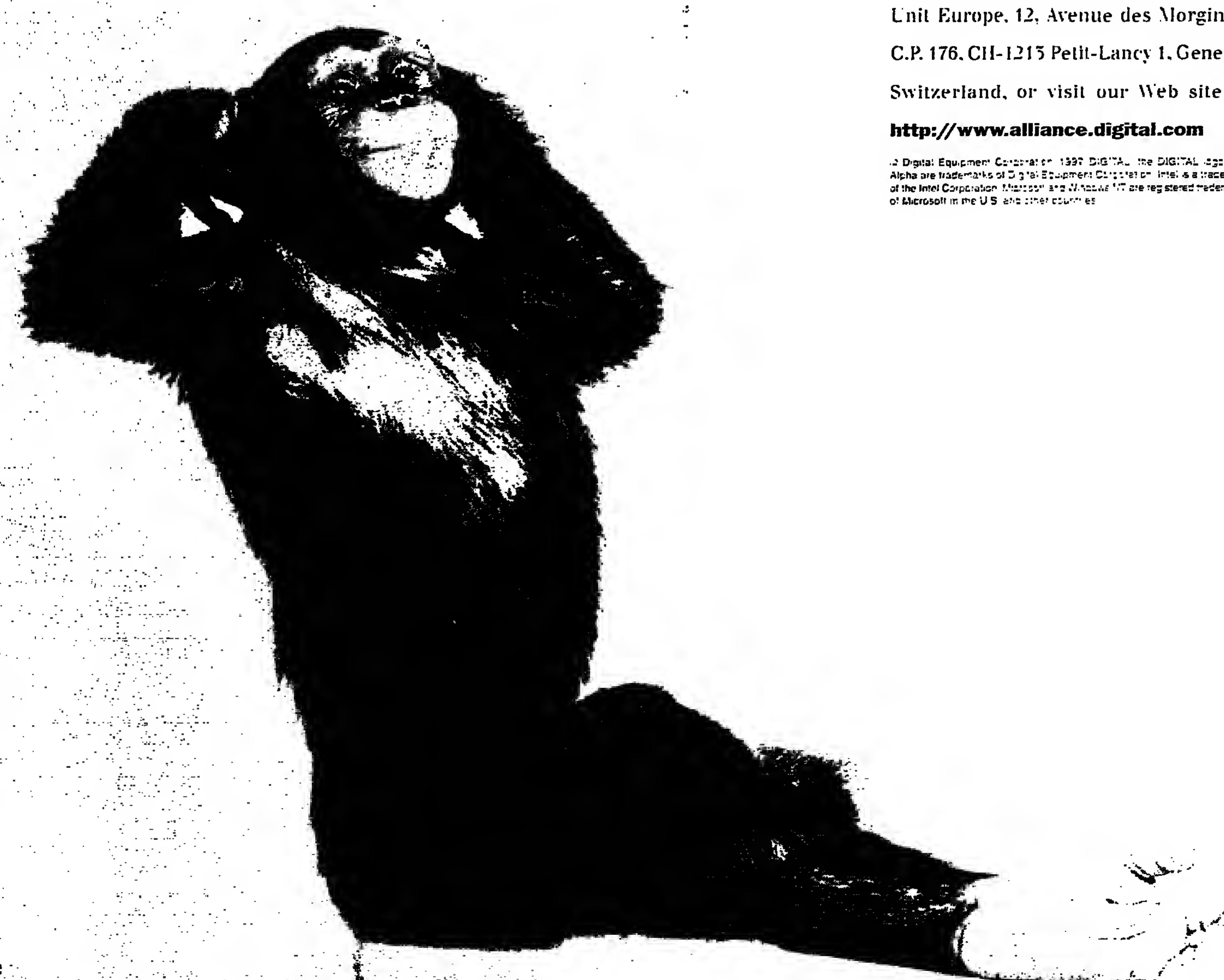


'The balance between shareholder and customer has to be looked at again,' says minister

Review of privatised utilities ordered

By David Wighton, Political Correspondent

The government yesterday announced a review of the regulation of privatised utilities which is likely to produce a better deal for consumers at the expense of shareholders.

Mrs Margaret Beckett, chief trade and industry minister, indicated that some of the more radical reforms contemplated when the Labour party was in opposition had been dropped. But she made clear that the review would lead to greater focus on the interests of consumers. "The balance between shareholder and customer has to be looked at again," she told a press conference.

City of London analysts were nevertheless relieved at the moderate tone of Mrs Beckett's speech. Some expressed surprise that, after extensive consultation in opposition, the government was launching another review. "They went over all this ground exhaustively before and you have to wonder whether this is just a way of sweeping it under the carpet," said one leading analyst.

Mrs Beckett told a utilities conference in London that the review would report to ministers by the end of the year. The government would then publish any options for change in a consultation document.

Mrs Beckett said the review would cover the electricity, gas, telecommunications and water industries. Mr John Prescott, the deputy prime minister, will hold a separate examination of transport regulation. The review will look at whether the current system of price regulation delivers the greatest benefits for consumers while maintaining incentives.

Mrs Beckett said that switching from price capping to a US-style rate-of-return regulation had been ruled out. But the review would examine the idea of profit sharing. This would introduce a profit ceiling, above which excess returns would be shared between customers and shareholders.

The Labour party became attracted to the idea after the water and electricity companies exceeded their regulators' profit forecasts in the early years after privatisation.

Mrs Beckett said that introducing a formal system of profit sharing might increase predictability. But she added: "I am certainly anxious, however, that we consider fully the practicalities."

While acknowledging that regulation had in most cases delivered falling prices, she said that 13 years after the regime was first introduced it was time to take stock.

"It is not so much that we are saying this is all wrong and terrible – there have been considerable strengths," she said.

Editorial comment, Page 15
Lex, Page 16

BA organises strategy to break strike

By Robert Taylor, Employment Editor

British Airways has been attempting to organise the most comprehensive counter-offensive to industrial action since Mr Rupert Murdoch's move of his News International printing operations to Wapping in east London 11 years ago.

"We intend to continue to operate if there are any strikes," BA's chief executive Mr Bob Ayling said yesterday.

The company has not denied that employment agency offices over recent months have been recruiting up to 1,000 truck drivers, baggage handlers and loading staff for BA in the Heathrow airport area.

Senior airline managers and other staff personnel have also been trained on six week courses to prepare for work as substitute cabin crew. A BA spokesman said yesterday safety and emergency regulations required only six days' training.

BA hopes many members of the Transport and General Workers' Union will defy any call from the union to go on strike and will report to work as normal.

The company has established what it intends will be "picket free zones" around its buildings, car parks and airport Underground railway stations to ensure staff do not face intimidation from strikers. These will be manned by BA managers.

Free minicab and taxi rides to and from work are being organised and special coaches will bring staff and others from hotels and railway stations to work at Heathrow. No hotels have yet been named.

Security patrols will also be used in car parks to protect staff cars. Video surveillance cameras are to be installed at official picket lines to "spot troublemakers", says BA. It is possible that BA would be able to find enough staff to ensure cabin crews are available at least for its long-haul routes.

The breakaway union Union Crew 89 is not in conflict with the company and its 3,000 members are mainly on those flights. It might be more difficult to ensure continuity of service for European and UK domestic flights from Heathrow.

But observers doubt whether BA would be able to prevent disruption if ground staff went on strike. That might lead to chaos and delays at Heathrow for the travelling public. Baggage could be held up. Check-in desks might be hard to keep open.

There is also a fear that computer staff, who are being balloted separately by the GMB/Apex union, could paralyse the ticketing system. This may explain why Mr Ayling seemed to be taking a softer line over the ground staff dispute than about the cabin crew last night.

The promise of "robust" contingency plans has done nothing to reduce apparent support for industrial action by BA staff. Indeed, the TGWU believes it has been counter-productive.

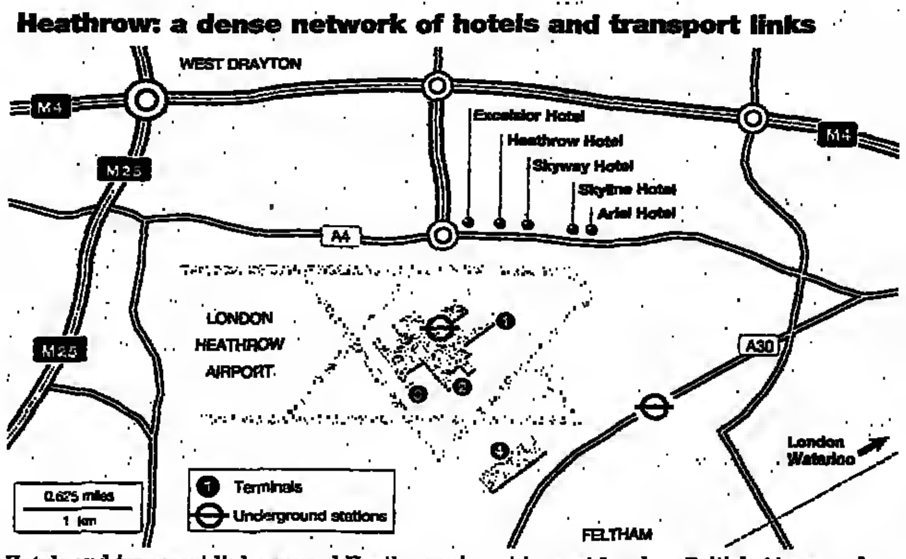
It may be difficult for an airline in a competitive business to behave as Mr Murdoch did in 1986 to his London printworkers and endure a dispute that could last many months.

Last summer Mr Ayling threatened his airline pilots with a contingency plan by recruiting and training replacements for them. But in the end he agreed to settle with them. Last night came the first signs that he may have decided to do the same for cabin crew and ground staff.

● Among the estimated 2,000 cabin staff attending yesterday's strike meeting in a hotel ballroom near Heathrow, the public comments of a minority reflected what appears to be the wider sense of fear and apprehension that management warnings have provoked, Jimmy Burns writes.

A young male cabin crew argued that the nature of the industry made it difficult for cabin crews to sustain a long strike. Relatively few cabin staff are required for the airline fleet on any one operating day and can therefore in theory be replaced.

Heathrow: a dense network of hotels and transport links



Hotels and transport links around Heathrow airport in west London: British Airways plans to bring workers into the airport in taxis in an attempt to break any strike

Airline chief 'wants to smash our union'

By Robert Taylor in London

Senior officials of the Transport and General Workers union remain shocked at what they regard as the extravagant rhetoric and ferocity in the way BA management has handled industrial relations with its staff in recent weeks. They believe BA has deliberately raised the stakes in the dispute.

"What we are seeing is a well-planned exercise to destabilise the union," said one senior official. "This has turned into Ayling's [Mr Bob Ayling, BA chief executive] personal crusade. He is flying high on this and has decided it must come down to who wins or loses."

In an open letter to Mr Ayling, released yesterday, Mr Bill Morris, TGWU general secretary, said: "We are amazed at the resources and effort BA has put into preparing for a dispute rather than concentrating on attempting to avoid one. It appears this is a dispute the company wants."

Almost all BA's 54,000 employees are TGWU members, and many have reached flexible collective agreements in line with the company's business efficiency programme. "This is living proof the TGWU can have a positive relationship as a modern trade union with BA," said Mr Morris.

But senior union officials question Mr Ayling's motives in taking such a hard line against the cabin crew and ground staff. "I believe Bob Ayling wants to smash the TGWU in order to impose an autocratic style of management on his staff," said one senior union official.

Union officials believe BA management have been preparing for a summer showdown with the TGWU for some time. The union regards BA's decision last month to close the offices of its cabin crew subsidiary at Heathrow and Gatwick airports as an indication of its hardening stance.

"BA launched a midnight raid to close down offices operated by our cabin crew staff," said Mr Morris. "Taken alongside the company's attempt to impose without negotiation a new agreement for cabin crew, it seems BA is determined on industrial confrontation in the manner of a nineteenth century millowner."

Cow waste may burn in state power stations

By Alison Maitland in Stoneleigh, Warwickshire

The government is considering acquiring redundant power stations to burn waste material from slaughtered cattle as the cost of the "mad cow" crisis heads towards £4bn ($6.6bn).

The proposal, announced yesterday by Mr Jack Cunningham, agriculture minister, follows inconclusive talks with leading power companies which, he said, were asking too much money for the job.

Ministers are alarmed at the mounting costs of transporting and storing about 400,000 tonnes of bonemeal and tallow – the remains of more than 1m older cattle slaughtered and rendered down to stop BSE, or "mad cow disease", entering the food chain. The costs are estimated at £2m a year.

Describing the situation inherited from the previous Conservative government as "a scandal", ministers said some of the storage costs could be recouped from the sale of electricity generated by burning the waste in government-owned power stations.

After months of public controversy over the best system of disposal, ministers pointed out that the Environment Agency had concluded that burning the waste at 850 deg in power stations would be safe.

But speaking at the Royal Show, the leading agricultural event in England, Mr Cunningham said: "Some of the proposals we have had from the energy companies were off the scale in terms of the charges."

Power companies are also believed to have demanded indemnity against any future claims for damages from people developing Creutzfeldt-Jakob disease, the fatal human equivalent of BSE.

Mr Jeff Rooker, food safety minister, warned that it could take several years to burn all the bonemeal and tallow, which will mount to 500,000 tonnes by 1998.

● The milk train made its return to the railway network yesterday after a gap of nearly 25 years with the launch of a one-month trial in moving tankers from Penrith, north-west England, to London, Charles Batchelor writes.

The milk is collected from farms in a road tanker which is then backed on to a flat-bed rail wagon. The tractor unit is then unhitched.

The trial has been organised by Milk Marque, the main UK milk distributor, and will be managed by Exel Logistics Tankfreight, a subsidiary of the NFC distribution group using a special "piggyback" tanker wagon developed for road-rail use by Tiphook.

McDonald's offers taste of optimism

Burger chain's decision to return to using British beef may bring farm industry a double benefit

After 15 months of gloom, the clouds over the UK beef industry lifted a little last week. McDonald's, the leading burger restaurant chain, said it would start buying British beef again.

The company stopped its purchases of British beef, which had been worth almost £30m ($49.5m) a year, days after the Conservative government announced in March last year that there might be a connection between the BSE or "mad cow" epidemic in cattle and a new variant of Creutzfeldt-Jakob disease, the fatal human equivalent.

The decision has a twofold impact on the beef industry. It has a symbolic significance because McDonald's reputation could encourage others to follow its example. Beyond that, its return to the market should help improve beef prices which are at their lowest for 17 years.

McDonald's says it always thought British beef was safe and stopped buying it only because of customers' fears. Its latest research shows that 74 per cent of customers are now keen to eat British beef again, and that is why it is returning to the UK market.

Burger King, another large chain which also stopped buying British, is considering its position. Other customers, such as schools, hospitals and the catering trade might be influenced by the McDonald's move. But the greatest prize would be the ending of the export ban imposed on the UK by the European Union.

British beef has been selling well in big UK retail chains. At J. Sainsbury beef sales are 8 per cent higher than they were before the BSE crisis. The chain sells only British beef.

But retailers say it is the prime cuts, such as steaks and joints, which have recovered best from the decline in demand. Volumes of mince and stewing steak are still down on pre-crisis levels. Burgers, like mince, are made from an animal's forequarters, while steaks come from the hindquarters. This is where the McDonald's move should have its second impact.

As Mr Anthony Gibson, south-west regional director of the National Farmers' Union, says: "The market has been weighed down by vast quantities of unsaleable forequarter beef."

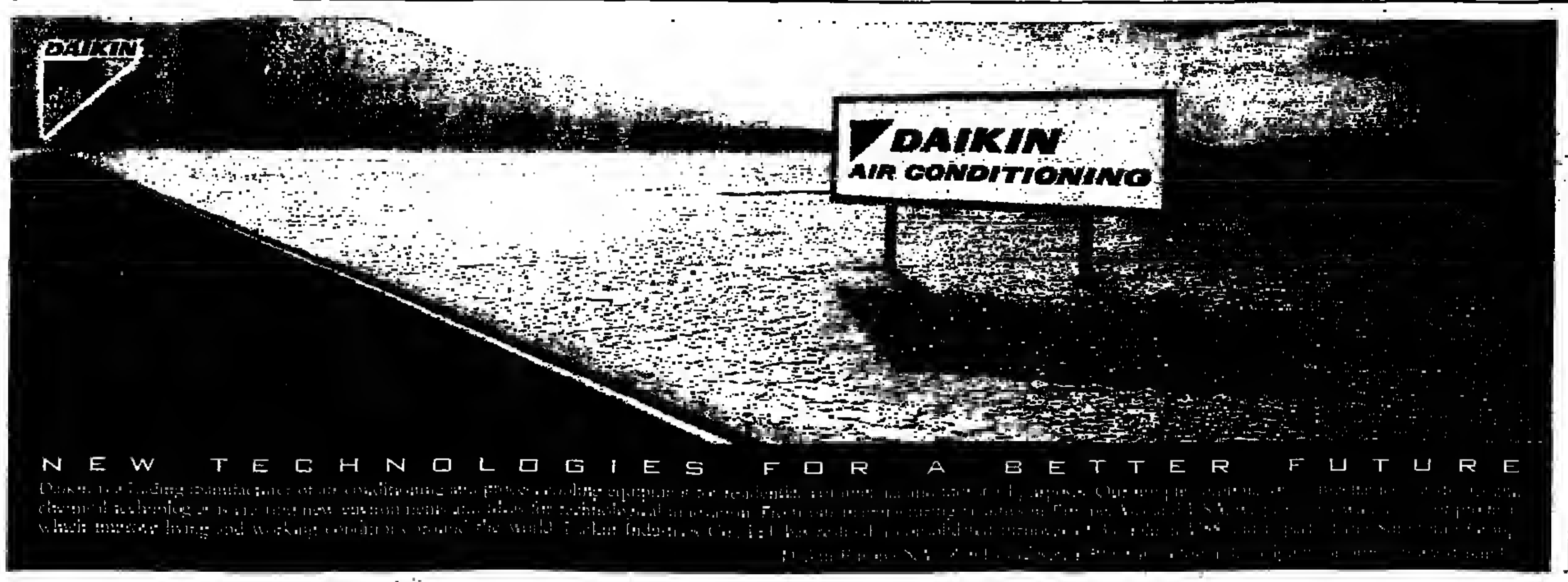
Thus the price of the whole beast has been dragged down by the lack of a market for part of it.

Mr Duncan Sinclair, an economist at the Meat and Livestock Commission, calculates that McDonald's could buy each week the forequarters from 4,000 animals, about 9 per cent of the 45,000 slaughtered for human consumption.

McDonald's will not be buying from the stockpile of frozen forequarters, and will purchase only from 11 selected producer groups which meet its specifications.

That raises concerns for Mr Ian Smethurst, managing director of Midland Mart, the leading UK livestock market. While he said he welcomed the McDonald's move, he fears that its purchasing method "smacks of cornering the market" and could create a two-tier market.

Maggie Urry



UK NEWS DIGEST

EU plan arouses wrath in City

Mr Alistair Defriez has been asked to extend his term as director-general of the Takeover Panel to help spearhead the City of London's efforts to fight off controversial European takeover legislation on the conduct of bids.

The head of the Takeover Panel is traditionally an active investment banker seconded for a two-year term, but Mr Defriez has agreed to stay for a rare third year.

"It is very important that there is continuity and that we keep up our lobbying, because it would be extremely bad news if we had this legislation forced on us," he said.

City institutions have been up in arms at the EU proposals, which are intended to harmonise rules between countries but which the European parliament has also used as an opportunity to make takeovers more difficult. Britain's Labour government has backed the City's efforts to block the plan, but, at a first reading in the Strasbourg parliament, Labour members either voted in favour of the proposed directive or abstained. *George Graham, London*

■ TRADE UNIONS

US-UK alliance to be signed

Communication workers' trade unions in the UK and US are to sign an "Atlantic alliance" to help boost recruitment, collective bargaining and training.

Three unions are joining forces to organise workers in both countries in response to the globalisation of the telecoms industry. UK unions are keen to reverse declining membership in the industry because of contracting-out of services and appearance of non-union firms.

The alliance will ha signed next Monday in London between the Communication Workers Union and Society of Telecom Executives of the UK and the Communications Workers of America.

■ LONDON SCHOOL OF ECONOMICS

Chairman resigns after grant row

Sir Michael Lickiss has resigned as chairman of the Chartered Accountants Trustees seven months after a row erupted over a £560,000 ($924,000) grant awarded to the London School of Economics. Academics from other universities claimed the LSE should have had to compete for the money with other highly rated accountancy departments.

Sir Michael, a former student at the LSE and a governor, said he had not taken part in the decision to make the award. A report to the Institute of Chartered Accountants, published yesterday, said the LSE award was perfectly proper. However, it suggested reforms which would add to trustees' workload and Sir Michael indicated that he wished to stand down as a result. *Jim Kelly, London*

■ TRAVEL INDUSTRY

Minister's call prompts legal move

Thomson, the UK's leading travel company, was yesterday consulting its lawyers after a government minister appeared to pre-empt the outcome of the Monopolies and Mergers Commission inquiry into the travel industry. The company was concerned that Mr Nigel Griffiths, the competition minister, had apparently called for changes in the industry before the MMC had concluded its investigations.

At a conference in Athens, Mr Griffiths reportedly said that he would lika to see the name of Thomson's travel agent shops changed from Lunn Poly to Thomson. Designed to make consumers aware of the link between tour operators and travel agents, such a move is thought to be one remedy that the MMC might propose. Lunn Poly, Britain's biggest travel agent, is owned by Thomson, the biggest tour operator. The MMC is investigating whether ownership links of the largest package holiday companies – principally Thomson and Airtours – can distort competition and lead to unfair trading practices. While Thomson denies that Lunn Poly favours its holidays, Airtours admits that its Going Places chain promotes its holidays first.

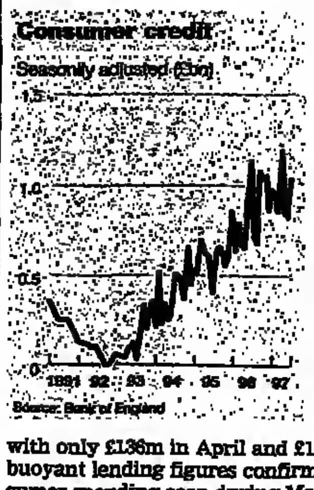
David Wighton and Scheherazade Daneshkhu, London

■ THE ECONOMY

Lending to individuals up sharply

Consumer credit

Seasonally adjusted (£bn)



Source: Bank of England

Total lending to individuals by banks and other home loans and savings institutions rose sharply in May, according to data from the Bank of England, the UK central bank. Net lending rose by £1.1bn ($1.81bn) during the month – £400m higher than the previous May and around £300m higher than most City of London forecasts. Much of the increase came in higher borrowing on credit cards. Consumers paid by plastic to the tune of £307m in May, compared with only £136m in April and £159m in May 1996. The buoyant lending figures confirm the rapid growth in consumer spending seen during May, attributed to a post-election "feelgood factor" and the anticipation of windfall payouts from mutual societies. Retail sales grew by 5.3 per cent in the 12 months to May.

The Bank of England's figures for notes and coins in circulation showed a 0.8 per cent rise last month – the highest increase for a year.

M0, which measures cash in circulation and banks' operational deposits, rose by 6.3 per cent in June compared with 6.1 per cent in May. *Richard Adams, London*

■ GAS INDUSTRY

Competition to spread

The next wave of competition in the domestic gas market will start in November, Ofgas, the industry regulator announced yesterday. Up to 2.6m customers in Scotland and the north of England will be able to buy their gas from any supplier from November 1. Competition will spread across the country in five stages.

By the final stage in June 1998, when competition is introduced in London and part of the rest of southern England, all UK consumers will be able to buy their gas in a competitive market.

Transco, the monopoly pipeline operator, which had been accused by suppliers of dragging its feet, yesterday welcomed the new target dates. *Jane Martinson, London*

■ CHARITY DONATIONS

Long-term decline recorded

Charities are seeing a long-term decline in the number of donors, according to a study published by the Institute for Fiscal Studies. But there is no evidence that the National Lottery has had a significant impact on charitable giving.

The real threat to charities, according to Mr James Banks and Ms Sarah Tanner, the report's authors, is a much longer-term decline in giving, particularly among younger households.

In 1996 only 30 per cent of households donated to charity against 34 per cent in 1974 though the average donation has been rising. *Nicholas Timmins, London*

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For further information please contact Peter Holder or Katherine Shepherd of Coopers & Lybrand, Benson House, 33 Wellington Street, Leeds LS1 4JP. Tel: 0113 289 4000. Fax: 0113 289 4472.

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No. 001876 of 1997
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IN THE MATTER OF THE
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TECHNOLOGY

Daimler-Benz and SMH are exploring untested ground in their innovative joint venture, writes **Haig Simonian**

Carmakers' smart move

Motor industry executives are wont to warn against building a new model in a new factory with a new workforce. Ambitious carmakers have learned to their cost that the penalty for excessive innovation can be missed deadlines, poor quality or disgruntled workers.

It is with as much disregard to the conventions of carmaking as to its traditional models that Micro Compact Car, the joint venture between Daimler-Benz and Switzerland's SMH watch-making group, has pioneered its new vehicle. Not only is the Smart minicar unlike anything else on the road, but it is being built in a radically new way at a new plant in a region without any automotive tradition.

The Smart will explore untested ground on how cars should be built. While consumers will focus on the looks and pricing of the diminutive 2.5m-long two-seater, to go on sale in continental Europe around next April, rival carmakers will be much more concerned about how it is put together. MCC claims it will be able to build the Smart in abont seven-and-a-half bours. That would be far quicker than the 10 hours it takes even the best carmaker today.

In looks alone, MCC'a factory at Hambach in eastern France – dubbed "Smart Ville" – poses a challenge. Rather than comprising numerous big halls, Smart Ville is centred on a single large building, shaped like a mathematical addition or plus sign, with smaller offshoots radiating from it. The "plus" is Hambach's heart. Rather than building all the Smart itself, large sections have been sub-contracted to a handful of suppliers, called "system partners" in smartspeak. They occupy the buildings around the "plus". Magna International, the Canadian body and interiors group, welds the structural shell. Eisenmann, a German coatings specialist, paints it and then passes it by conveyor to the first arm of the "plus", where VDO, a German instrument specialist, installs the cockpit.

Only here – three hours into the assembly process – does MCC lay hands on the Smart. As the vehicle travels along the overhead conveyors occupying the "plus", further modules arrive from the other system partners on site – at precisely the point where they need to be installed.

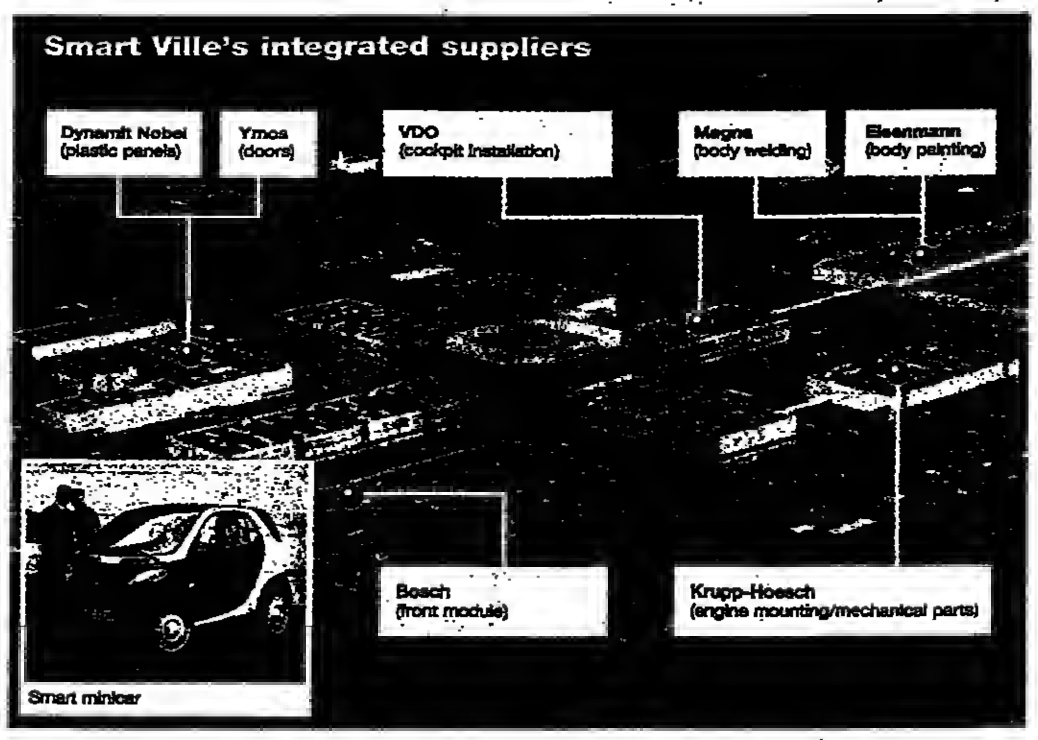
The mechanical sub-assembly, including the motor and axles, is put together by Germany's Krupp-Hoesch. Front modules, comprising lighting and electrics, come from Bosch, the German electronics group. Plastic body panels are made by Dynamit Nobel, while Ymos of Germany leads a consortium supplying door modules.

Integrating suppliers has become more commonplace as carmakers seek to cut costs and assembly times. Devolving work can relieve a carmaker of basic research and development spending and accelerate development times by allowing teams from the carmaker and its suppliers to work in parallel. MCC believes its "system partners" accounted for about 70 per cent of the engineering work on the Smart.

Moving to modular sub-assemblies for new cars can also cut carmakers' capital costs and reduce the amount of working capital tied up in stocks. In practical terms, having dedicated facilities to assemble modules can also improve quality and allow manufacturers to automate certain functions which could not be done on the line.

A number of car plants around the world now boast their own adjacent "industrial parks" for component-makers. Fiat's big car plant at Melfi in southern Italy, inaugurated in 1994, was one of the first. At Skoda's new assembly hall for the Octavia saloon at Mlada Boleslsv, some modules are even built alongside the production line.

Sucb innovations are invariably easier at new sites than at



old ones and at factories building the latest generation cars, designed for at least some degree of modular construction from the start. Although Valencia, which builds Ford's new Ka hatchback, opened in the mid-1970s, it had ample space in the adjoining orange groves for growth. Rastatt, which is home for Mercedes-Benz's forthcoming A Class, was only opened in 1992 and is almost as spacious.

A still newer breed of car plants is forming to take the process further. Volkswagen's new truck and bus facility at Resende near Rio de Janeiro, which is gradually building up capacity, has broken new ground in using suppliers to build and install parts actually on the line.

General Motors, the world's biggest carmaker, is believed to be thinking similarly for a new small car plant earmarked for southern Brazil.

But Smart Ville, to be opened officially by Helmut Kohl, German chancellor, on October 27, arguably goes further than even the VW and GM factories. Resende's commercial vehicles are built in much lower volumes than the 200,000 units a year due to emerge from Hambach at full tilt. And GM's plant is still on the drawing board.

The 70 ha Hambach site has also in effect abolished distinctions between MCC employees and those of its system partners. That is unprecedented in the motor industry, but inevitable when the two sides work so closely together. To underline their common purpose, staff from MCC and its system partners even share the same canteen.

The dining hall's location over the axis of the "plus" – where defective vehicles are repaired before shipment – is also significant. By offering panoramic views over the assembly lines and rectification area, the canteen is intended to drive home the message that quality is paramount.

Other carmakers have tried to instill the same sense of "ownership" in their employees through teamwork and training. The latest factories have even tried to incorporate the message in their architecture: Skoda's Octavia assembly plant has a special area between the two arms of its U-shaped production line reserved for meeting rooms for quality circles and visits from disgruntled customers.

None, however, has taken the concept of worker integration as far as Hambach. Staff from the system partners have been involved in the Smart from the blueprints onwards.

Recently the co-operation has shifted up a gear to production engineering. Detailed debriefings were held after the first set of production trials in April to identify and eliminate bugs. A new round of discussions will follow the second production trials next month.

The idea is to create a sense of common purpose among MCC and its system partners as the plant moves towards full production later this year. So far, the 450 production staff on site, split roughly equally between MCC and its system partners, are still outnumbered by between 800 and 1,000 construction workers finishing the project. But as building nears completion, the number of car workers will rise towards an expected 2,000 at full output.

Then, the need for seamless co-operation between MCC and its partners will be essential to ensure that Smart Ville is more than just another monument to a motor manufacturer's ambition running ahead of reality.


Evil weevil: emerging from a grain

War waged on the weevil

David Spark reports on a new method for scanning grain

Two UK scientists have devised a method for quickly scanning grain to detect harmful contaminants. The approach could improve food quality and rednce the precantionary use of pesticide.

Most grain is traded at least once after harvest, which gives buyers an opportunity to check its quality. At present, experts check the grain by eye. But weevil grubs develop inside grain kernels where they cannot be seen by the naked eye, so the new method, which uses digital imaging techniques, makes early action possible.

Female weevils lay their eggs in grain. While adult weevils are only 6mm long, the grubs are even smaller and are transparent.

The device came about wben John Chambers, of the UK Ministry of Agriculture's Central Science Laboratory, was seeking a rapid detection method on behalf of the UK's Home-Grown Cereals Anthority, an industry-funded research and promotional body. One idea he had was to put grain kernels in a nnclear magnetic resonance machine and see if a weevil grub was detectable. The method worked, but produced results too slowly to be useful for checking a truckload of 30 tonnes in transit. Chambers tried scanning the grain with radio waves, and also experimented with near-infra-red light. He even tried listening for insects.

Then he met Roy Davies, professor of machine vision at Royal Holloway College, London University, and realised he might produce the answer.

Together the two men came up with a system using algorithms – sets of mathematical rules used for problem-solving – to spot irregularities in digitised images of grain. It can find weevils, grubs, ergot – a fungus that can affect cereals – or virtually anything else which should not be in the grain.

The system is sensitive, fully automated and works well in the laboratory, checking about 3kg of grain in three minutes. The inventors are discussing with the authority and manufacturers how to speed up the process and use it in a robust machine.

A further problem with grain is that it attract mites; a colleague of Chambers, Bhushy Thind, has also devised a system for finding mites in food. He puts a food sample in aqueous alcohol and floats kerosene through it. The kerosene carries any mites with it.

Chambers' research team collected many samples of grain products from shops in the UK – baby foods, biscuits, bread, breakfast cereals, flour, soup mixes – and found that 22 per cent of the samples contained mites.

He also asked people to store samples in their homes for six weeks. Thirty-eight per cent then proved to contain mites, which, if warm, damp and well-fed, can multiply 50-fold in a fortnight.

He bopes to discover where tha mites come from and whether they are harmful when eaten with food. Mite material breathed into the lnngs is blamed for the increase in asthma and other allergic conditions.

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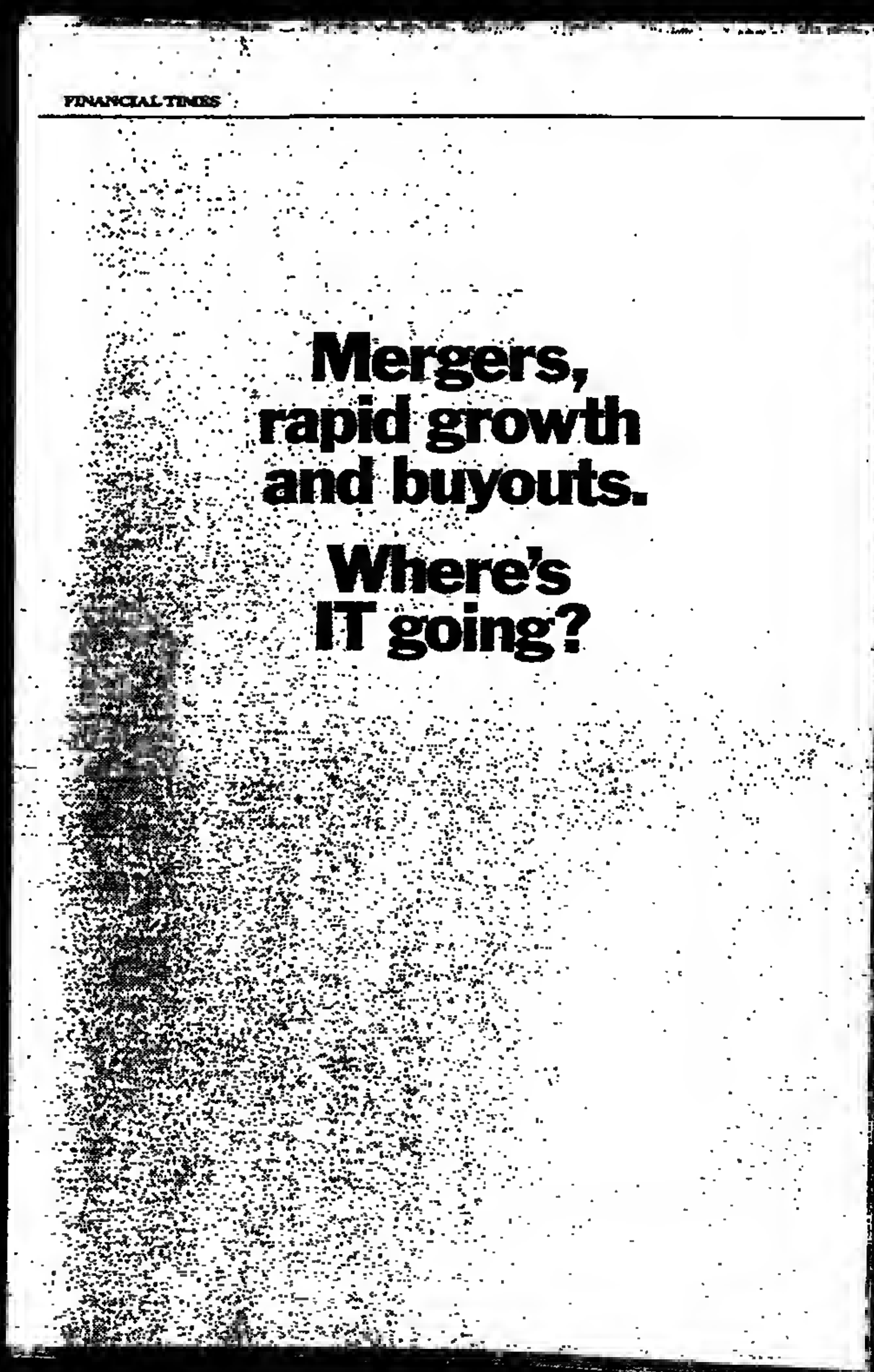


FT-IT Review: July 2.
This month's review examines recent moves in Silicon Valley and the potential implications for corporate businesses in the new millennium. Also, a feature on the financial service sector reveals how it's coping with the digital age.
FINANCIAL TIMES
No FT, no comment.

Portraits are back in the picture

William Packer reviews the latest prize-winners

What with all the shock-horror furore that lately greeted the announcement of this year's short-list for the Turner Prize, we might forgiven for supposing the Turner was all we had and that painting of a more straight-forward and traditional sort, indeed painting *of any sort, had no look-in* at all. The truth, though inevitably less newsworthy, is rather different and somewhat more encouraging.

Our oldest open prize exhibition, the John Moore's at Liverpool, has always spread its net wide in its support of contemporary British painting, from abstraction to figuration. Over the years it has been joined by the Hunting and, more recently, the Jerwood and the Nat-West Prizes, each in its different way committed to the encouragement of modern painting in a manner that is catholic, critical and undoctrinaire. We critics may sometimes cavil at the particular manifestation, grumble at age-limits and take issue with the judges, but the general good is incontestable.

And as effective as any of the prize exhibitions is the annual Portrait Award at the National Portrait Gallery. It was instituted in the early 1980s under the aegis of John Player, which sponsorship has been continued since 1990 by BP. As a demonstration of the long-term benefits of the sensible sponsorship of the visual arts, it could hardly be bettered – a quiet start and sustained growth into something now indispensable. Would we miss the Turner Prize? Probably not after the fuss died down. The Portrait Award would leave a real hole.

For what it has done from the start is to remind young artists that there are courses to follow other than the narrow imperatives of avant-garde art-school orthodoxy. In the 1970s the portrait, the pre-occupation of the greatest of artists, had seemed to be out of fashion, no longer relevant, the preserve of the fuddy-duddy and the academic. It is a real achievement that that can no longer be said. I have always argued *for the age-limit of 40* to be removed, but I do recognise that the prospect of a healthy prize, £10,000 to the winner this year, with the chance to place a commissioned work in a major national collection, has concentrated the mind of many a young painter.

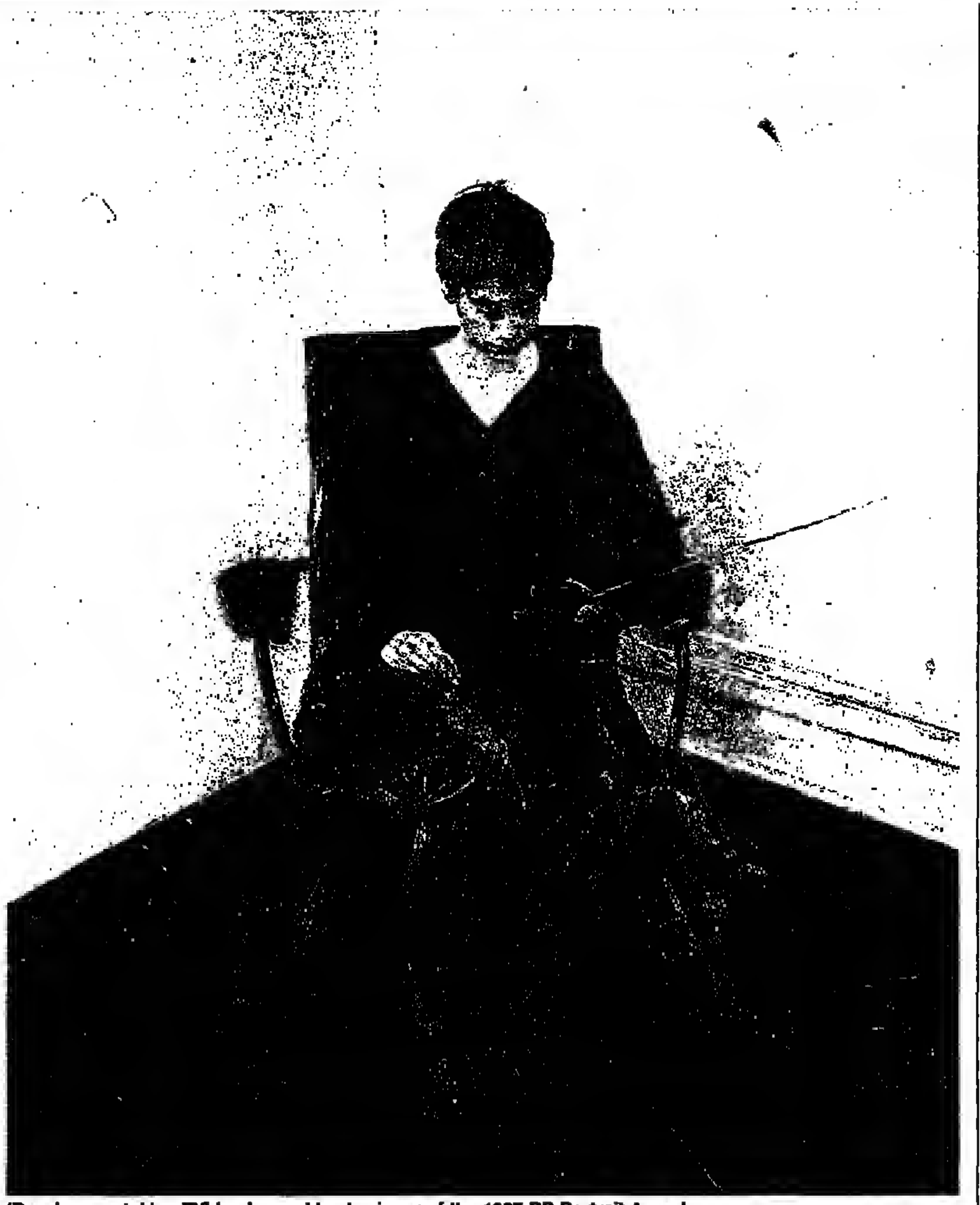
The point is not the unearthing of unsuspected masterpieces, though fine things have come up over the years, so much as raising and sustaining a general standard, which this year remains gratifyingly high without being exceptionally so. The camera clearly remains an important aid to many of the artists, though photo-realism as such is not too much in evidence. On the whole the more mannered, forced or consciously artificial the composition or presentation, the less successful the work. That said, Abigail McLellan's double portrait, "Rebecca and Matthew", richly stylised and, to those of us who know the subjects, acutely observed, is as well drawn and painted as anything in the show. Gary Goodman's swiftly-stated expressionist couple, too, is accomplished, witty and effective.

This year's winner, James Lloyd, at nearly 26 and but lately at the Slade, is among the younger artists to have won the main award. His large, rather dour canvas, "Penelope watching TV", of a full-length seated figure in an empty corner of a room, is admirable as much in its ambition as its competence. On such a scale, with an inevitably monumental image, it had to be properly drawn and modelled, and the paint handled to hold the surface, or it would have fallen apart. It is a brave and convincing work.

Among the minor prize-winners and commendations, and for similar reasons, I also liked Paul Benney's rather more fluently-handled "Spitz", a full-length man in a dark coat with his whippet. But it would not be a prize exhibition, nor I a critic, were I not to wish the prizes disposed elsewhere. My own pick of the bunch includes Geoffrey Hayzer's small and very cleverly painted study of, presumably, his father; Frances Borden's rich and intense *self-portrait* head; Orlando Mostyn-Owen's very open and relaxed rendering of a relaxed subject, a seated girl with her legs stretched out; and Colin Watson's indolently reclining girl in a red jumper, satisfyingly flat and solid in the paint.

Also remarkable is Heath Rossetti's very positive and straight-forward "Evelyn", a tiny nude of pre-Raphaelite intensity of a woman who has had one breast removed. But best of all, for me, is another, somewhat larger nude, Michelle Anderson's rather pale and wistful girl, three-quarter length, standing against a pale towel against a paler wall, all but monochromatic in its delicate range of yellow ochre and naples yellow. Quiet, undemonstrative, it is beautifully done.

The BP Portrait Award: National Portrait Gallery, St Martin's Place WC2, until October 5, then on to Aberdeen and Belfast; sponsored by British Petroleum.



'Penelope watching TV' by James Lloyd, winner of the 1997 BP Portrait Award

The master and his muse

Clement Crisp is entranced by Roland Petit's jubilee dance gala

Twilight. A floating stage moored near the quay in Marseille's *Vieux Port*. On the quay-side, banks of seats. Beyond the stage the water of the port reflecting the buildings and lights of the other quay and the lamps on sailing boats, and soaring in the distance the Cathedral of Notre Dame de la Garde. A magical setting for last week's celebration to mark the silver jubilee of Roland Petit's Ballet de Marseille.

Twenty-five years ago, ballet in Marseille meant two performances a year. Petit changed that! His company, Marseille's company, has ever been exciting, crammed with good dancers, and productive (Petit makes ballets because he can't *not* make ballets, rather like Saint Saëns who declared that he produced music as an apple tree produces fruit.)

Petit has spanned every form of theatre dance, from three-act dramas to music-hall shows. The common link is his dazzling sense of theatre, and his no less dazzling visual taste. From Paul Delvaux and Max Ernst to Keith Haring's graffiti, by way of Dior, St. Laurent, Nikki de St Phalle and how many more, Petit's spectacles have enlisted the best design and ravished the eye. And in all his works, a theatrical potency which comes from his daring, which is a daring always innovative, but secure enough to use the oldest (and usually best) tricks in the business.

This gala programme was inevitably too short to be a survey of what he has done in Marseille. He entrusted much of the choice to his dancers, and they chose well. We began with fragments from *Ma Pavlova*: the boy swans (which Petit thought of 15 years before Matthew Bourne), and then Dominique Khalfouni (so happily associated with so many Marseille triumphs) in the *Thaïs* meditation, floating and curling in the arms of Lianz Chang. Then a new Carmen: Asylmuratova (Petit's latest *prima*) passionately intense with the admirable Jan Broeckx as José.

The company followed this with part of *La Mer*, where Petit has managed – and only he knows how – to realise Debussy in movement. Then Luigi Bonino irresistibly Chaplin (and amusingly so, for me who loathes the Great Charlie's capers) in a short solo, and Petit's newest young dazzlers, Lucia Lacarra and Massimo Murru, in *Bolero* (Ravel, boxing, a passionate encounter).

And finally, Zizi. Zizi Jeanmaire and Petit were children together at the Paris Opera School. For 40 years, Zizi has been at the heart of Petit's work. His ballets, his music-halls shows, have all celebrated her wit, her ultra-stylish dancing, her irresistible charm – and her stunning legs. Audiences round the world know that all you need for a tremendous evening in the theatre is Zizi, a dozen dancing chaps, a few chairs, a feather boa, and those national treasures, the Jeanmaire pins.

So it proved yet again on Wednesday. *Smoke gets in your eyes* was the excuse, sent out to us by Zizi in that urchin shout, while – spiffing in a tiny black frock – she trod over chairs, trailed an interminable and smokey boa, drove her boys ape, and looked what she has always looked: the spirit of the theatre. The black cap of hair, the glorious smile, the tiny vivid figure and the gestures done with utmost economy and force, the lightning-flash of her temperament: these are as enduringly French as the Eiffel Tower, and much more fun.

The evening was admirably done – and, of course, superbly lit. Petit and Zizi were greeted with roars of delight and gratitude. I simply say: Dear Roland, Dear Zizi – love and thanks.

Roland Petit with Zizi Jeanmaire in Marseille

Theatre/Alastair Macaulay

Beckett triumphant

An actor who once played Clov in a production of *Endgame* supervised by its author, Samuel Beckett, recently told me of a question he put to the great modernist dramatist. "Clov is always saying he's going out," he said. "But is he just going to the kitchen, or is he walking out of the house forever?" Beckett looked at him and, sybilline, said, "These things are always ambiguous."

Some actors would find that infuriating; but they should not play Beckett. The point is not that *Endgame* lacks meaning, but the opposite: that it is wrong to pin anything in it down to one specific interpretation. This actor, however, told me that he adored Beckett's reply, finding it a kind of open-sesame into modernism; and that "Ever since, I've never tried to understand these plays; I've gone for rhythm and music."

Peter Hall's new production of *Waiting for Godot* is a triumph of rhythm and music; and it is a triumph for Beckett, and for all its very distinguished cast. Comic irony co-exists with tragic bleakness, largeness of vision with pettiness of detail. Alan Howard is Vladimir, Ben Kingsley is Estragon, Denis Quilley is Pozzo, Greg Hicks is Lucky; and the boy is Alex Russell.

Not for a moment does this great play flag, and there are many particular moments and passages that leap out as much for their phrasing and timing as for their thought. Only a director of Hall's musicality could so perfectly work Chopin's *Marche Funèbre* (sung) into the action; or make "Didi" and "Gogo" sing, in grunting staccati, the *Merry Widow* waltz (echoes of Beckett's *Happy Days*) while hectically dancing round the stage.

The pinging speed and lightness with which Kingsley suddenly says "Nothing happens, nobody comes, nobody goes, it's awful!" astonishes. Just as fine, in Act Two, is the always different, always new, way in which, whenever reminded by Vladimir that they are "waiting for Godot", he says "Ah yes". Howard, always a musical actor, refines his exceptional technique to its most austere. I know no actor who can so project a *mezza voce*, and who would think of applying one to a line like (when buttoning up his flies) "Never neglect the little things of life". Every time Estragon begins "I had a dream", he interrupts with "Don't tell me!"; every time, the note of dread – always quick and urgent – is different.

Both actors speak in light Irish accents, ideally bringing out the wryness of the words. Vladimir/Howard is the more mindful of the two, and the more insistent timekeeper; but is that any advantage? Estragon/Kingsley is both stooge and dreamer, and transcends his own poverty of memory by suddenly railing at Vladimir: "Have you not done tormenting me with your accursed time?"

Greg Hicks's account of Lucky is a *tour-de-force* even before he utters a word. His realisation of the panting, spitting, self-punishing, dying work-horse is terrifying; and then he speaks. Brilliantly, he shows every aspect of the torrential speech: the stream of consciousness, the cosmic and existential vision, the literate elegance, the incoherent nonsense. Is he a ninny parroting other man's words? Or a victim who, when allowed self-expression, proves himself a true seer? These things are always ambiguous. The same is true here of Lucky's dance: with Hicks, it sets out to be a solo of furious expressionism – only it cannot quite express itself.

In the relationship of Lucky and Pozzo, Beckett (who had been a balletomane in his time) reproduced and surpassed the relationship of Petrushka and the Charlatan – the pathetic doll struggling to convey emotion and the repressive impresario who is oddly toy-like himself. Not for years has Denis Quilley done anything so fine as his Pozzo. The role suits his ripe theatricality of utterance, and he shows beautifully its strange artificial vividness. As Lucky weeps and as Vladimir and Estragon prepare to dry his eyes, Pozzo urges them, "Make haste before he stops". The Beckettian irony – if you don't stop those tears, they'll stop anyway – is beautifully planted on the air. The whole production is witty, and it is good to hear *Godot* raising laughter through the Old Vic.

In repertory at the Old Vic, SE1.

INTERNATIONAL ARTS GUIDE

■ BAD KISSINGEN

CONCERTS
Kissinger Sommer Festival
Tel: 49-971807110
● Felicity Lott and Ann Murray sing a programme including works by Purcell and Brahms; at the Tattersall, Jul 1
● Roger Norrington conducts the Czech Philharmonic in a programme of works by Schumann, Elgar and Dvorák; at the Regentenbau, Jul 2
● Tenor Peter Schreier and pianist András Schiff perform music by Schubert; at the Kurtheater, Jul 3
● Violinist Christian Tetzlaff and pianist Leif Ove Andsnes perform works by Beethoven, Ravel and Debussy, at the Kleiner Kursaal; Jul 5

■ CHELTENHAM

CONCERTS
Cheltenham Festival
Tel: 44-1242-227979
● BBC Philharmonic: conducted by Vassily In Sinaisky in Brahms' Symphony No. 1 in C minor, a new work by John Buller and Tchaikovsky's first Piano Concerto, with pianist Boris Berezovsky; at the Town Hall, Jul 5
● RNCM Wind Orchestra: conducted by Tim Reynish in works by Mendelssohn, Sallinen, Strauss and Mozart; at the Town Hall, Jul 6
● *La Bohème*: by *Puccini*, performed by the European Chamber Opera; at the Everyman Theatre, Jul 8

■ DROTTNINGHOLM

OPERA
Drottningholms Slottsteater
Tel: 46-8-4570600
Euridice: artistic director Per-Erik Ohrn has chosen two of the first operas ever written for his first year at the festival's helm. Jacopo Peri's opera dates from 1600 and this is its Swedish premiere. Produced by Karl Dunér, and designed by Peder Freiij, the Drottningholm Theatre Orchestra is conducted by Jakob Lindberg; Jul 5, 8

■ GRAZ

CONCERTS
Styriarte Festival
Tel: 43-316-825000
● Liederfürsten (Princes of Singing): soprano Ruth Ziesak sings works by Hugo Wolf and Schubert, accompanied by Helmut Deutsch; at the Kammermusiksaal, Jul 1
● Dia Quintette: the Wiener Streichsextett plays string quintets by Brahms and Schubert, composers whose portrayal by this festival is as 19th century musicians with 20th century leanings; at the Schloss Eggenberg, Jul 3
● Lamento: the "Red Byrd" vocal ensemble performs a programme around Monteverdi's Lamento d'Arianna; Jul 8

■ LONDON

CONCERTS
City of London Festival
Tel: 44-171-638 8891
● Barbara Bonney: recital by the American soprano is among this week's festival highlights, accompanied by Helmut Deutsch in songs by Schubert, Clara Schumann, Brahms and Debussy; at Drapers' Hall, Throgmorton Street EC2; Jul 2
● Bernstein: *A White House Cantata* – Kent Nagano conducts the London Symphony Orchestra in Bernstein's reworking of the score of his unsuccessful musical, *1600 Pennsylvania Avenue*; Barbican Hall, Jul 8
● Great Salzburg Mass: one of the grandest Baroque religious works, now attributed to Heinrich Biber. Performed by the Gabrieli Consort and Players conducted by Paul McCreesh, with Musica Antiqua from Cologne; at St. Paul's Cathedral, Jul 3

OPERA
Royal Opera House
Tel: 44-171-304 4000
Simon Boccanegra (1857): British stage premiere of this, the original version of Verdi's opera. Mark Elder conducts, Ian Judge directs. Sergei Leiferkus, Plácido Domingo and Kallan Esperian star; Jul 4, 8

Queen Elizabeth Hall
Tel: 44-171-928 8800
Mark-Anthony Turnage double bill premiered in Aldeburgh. Based on a story by H.G. Wells, *The Country of the Blind* is directed by Emma Jenkins and stars Thomas Randle in the lead role. *Twice Through the Heart* is based on poems by Jackie Kay. Nicholas Kok conducts the Orchestra of the ENO; Jul 3, 5

DANCE
Royal Opera House
Tel: 44-171-304 4000
The Royal Ballet: mixed programme includes Twyla Tharp's *Push Comes to Shove*, William Forsythe's *Steptext*, and *Symphony in C*, choreographed by Balanchine to music by Bizet. The final performance will be the last ballet at Covent Garden before the theatre closes for renovation; Jul 5

EXHIBITIONS
National Gallery
Tel: 44-171-839 3321
Seurat and The Bathers: places Seurat's great "Bathers at Asnières" in a context provided by his own earlier work, and studies and drawings for the painting, as well as works by predecessors who influenced him, and by his Impressionist contemporaries; from Jul 2 to Sep 28

Victoria and Albert Museum
Tel: 44-171-938 8500
Shamiana: The Mughal Tent – made up of textile panels designed and made by communities of women all over the world, this tent – part of the V&A's celebration of 50 years of Indian independence – goes on show in the Pirelli Garden; to Sep 14

■ NEW YORK

CONCERTS
Lincoln Center Festival 97
Tel: 1-212-875 5030
New York Philharmonic: at the Avery Fisher Hall. Conducted by Kurt Masur in the first of three programmes celebrating the music of jazz maestro Ornette Coleman, whose octet Prime Time joins the orchestra in a performance of *Skies of America*; Jul 8

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
The Glory of Byzantium: exhibition celebrating the Second Golden Age of Byzantine civilization from mid-9th to mid-13th centuries; to Jul 6

THEATRE
Lincoln Center Festival 97
Tel: 1-212-875 5030
Les Danaïdes: US premiere of Romanian director Silviu Purcarete's reconstruction of Aeschylus' 470 BC tetralogy. Involves 120 actors and musicians in the story of the flight from Egypt of 50 defenceless sisters, performed in French with English supertitles; Damrosch Park, 62nd St near Amsterdam Ave; Jul 8 to Jul 20

■ SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
● Così Fan Tutte: Kenneth Montgomery conducts Mozart's opera, sung in English, in a new production directed by Nicolette Molnar and designed by Bruno Schwengl; Jul 2, 4
● La Traviata: Linda Brovksy directs this new production of Verdi's opera, set in Paris and conducted by John Crosby; Jul 3, 5

■ SCHLESWIG-HOLSTEIN

CONCERTS
Music Festival
Tel: 49-431-567080
NDR-Sinfonieorchester: opening concert of works by Schoenberg and Mahler conducted by Herbert Blomstedt, with soprano Karan Armstrong; Musik- und Kongresshalle, Lübeck; Jul 5, 6

■ TANGLEWOOD

CONCERTS
Tanglewood Festival
Tel: 1-617-931 2000
● Juilliard String Quartet in a programme of works by Beethoven; at Ozawa Hall, Jul 2
● Zdenek Macal conducts the Boston Symphony Orchestra in works by Brahms and Mozart, with piano soloist Garrick Ohlsson and the Tanglewood Festival Chorus conducted by John Oliver; at the Shed; Jul 5

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Financial Times Business Tonight

هكذا من الأصل

Martin Wolf

Wealth without power

The success of Hong Kong's economy shows that benign policies, efficient institutions and open international trade allow small countries to prosper

Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes and a tolerable administration of justice; all the rest being brought about by the natural course of things." Adam Smith

At its peak, the British empire possessed a quarter of the world's population and land mass. Within China's frontiers now lives a fifth of the word's people. But Hong Kong, the juicy bone that has just been passed from the former to the latter, is richer than either. This is a big fact about a small place – one with important lessons.

In 1995, according to the World Bank, Hong Kong's real income per head (at purchasing power parity) was US$22,950 (£13,909). This was 20 per cent higher than that of the UK and almost eight times as high as mainland China's. Of the advanced economies, only the US and Switzerland had higher real incomes per head. Yet Hong Kong has no large internal market; it belongs to no preferential trading bloc; and it employs no trade protection. It is a rock whose only natural endowment is its harbour. But it owns the resource that matters most: an active and enterprising people.

The quality of a people is not itself enough. A successful economy also needs benign policies and efficient institutions. So when China boasts that Hong Kong's return marks the end of a national disgrace, Britain can respond that Hong Kong's 6.2m Chinese have enjoyed better government and greater opportunities than Beijing has yet provided for its own people. If this is disgrace, whose is it?

The fascinating new World Development Report from the World Bank shows that in countries with good governance and sound policies real income per head grew at 3 per cent a year between 1964 and 1993*. With reasonable policies, but poor government, growth per head was only 1.4 per cent. In countries with neither it was a mere 0.4 per cent. The state possesses the monopoly of legitimate force. A benevolent and competent monopolist is almost as fabulous as the unicorn. Hong Kong's government has been both.

The colony's success also underlines the value of open international trade. Adam Smith argued that "were all nations to follow the liberal system of free exportation and free importation, the different states into which a great continent was divided would so far resemble the different provinces of a great empire". Politically, Hong Kong belonged to the British empire. Its economic domain was the world.

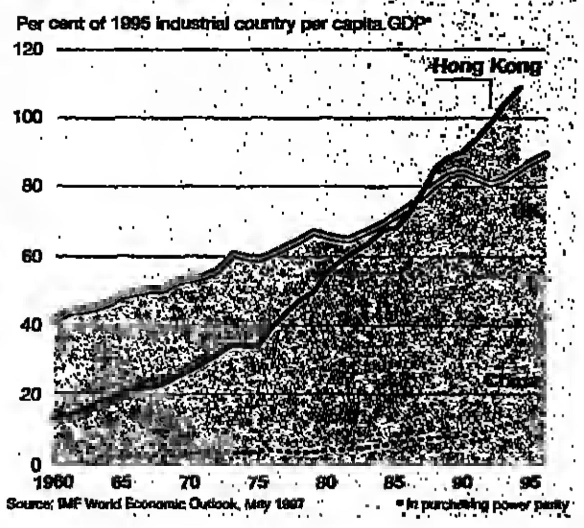
The mainland only started to prosper once Deng Xiaoping allowed it to become a relatively open trader, instead of a closed territorial empire. China's growth soared as trade in goods and services jumped from 5 per cent of gross domestic product at market prices in 1970 to 40 per cent in 1995.

Openness to trade does more than allow prosperity. It divorces economic opportunity from power. This classical liberal insight has been rediscovered by Professor Alberto Alesina of Harvard University and several associates. In the latest of a series of papers, the authors argue that "trade liberalisation and political separatism go hand in hand. . . . In a world of free trade and global markets even relatively small cultural, linguistic or ethnic groups can benefit from forming small and homogeneous political jurisdictions that peacefully trade and are economically integrated with others".**

Openness to trade tends to make a country richer. Indeed, the principal difference between small countries and big ones at a given level of income per head is that the little ones trada more. The obvious alternative to trade is to expand the country, by merger or conquest. But the benefits of greater size becoma less important as states become more open to trade. "Open countries are able to reap the benefits of access to a large market, thereby avoiding the costs associated with being small," argue Prof Alesina and associates.

The rise and rise of Hong Kong

Per cent of 1995 industrial country per capita GDP*



Source: IMF World Economic Outlook, May 1997 * In purchasing power parity

Such small, open economies can also avoid the costs of size. The larger the state the more heterogeneous it tends to be. The combination of size with heterogeneity creates big difficulties: the citizens are more likely to be unhappy over policies they are forced to share; organised interests are more likely to dominate politics; and the government is more likely to prove remote and unaccountable.

Today, 10 countries have populations of over 100m. Only two, the US and Japan, are rich. But the US is exceptional for its historic combination of small government with individual liberty, while Japan is unusual for its compact size and homogeneity. The rest of the group – China, India, Indonesia, Brazil, Russia, Pakistan, Bangladesh and Nigeria – are remarkable mainly for their modest incomes and the difficulties their governments have in achiaving coherence and maintaining control.

Similarly, defined by the magnitude of their conquests in relation to the size of the original mother country, Europe'a greatest imperial powers were Portugal, Spain, tha Netherlands, the UK and Russia. None seems to have drawn enduring economic benefit from its vast empire. Usually, the easy resources and glittering prizes of empire distorted economic life and distracted political attention.

Writing in 1909, Norman Angell argued (in his celebrated book, *The Great Illusion*) that "the wealth, prosperity and well-being of a nation dapend in no way upon its political power; otherwise we should find the commercial prosperity and social well-being of the smaller nations, which exercise no political power, manifestly below that of the great nations which control Europe, whereas this is not the case." He concluded from this that the economic arguments for war then being advanced were both ludicrous and suicidal. The leaders of Europe promptly proved him tragically right.

Once again, Hong Kong's wealth demonstrates his point. The colony is prosperous, but powerless. Yet, as Angell would have pointed out, it cannot be plundered, because its wealth can only belong to the people who create it. All that a malevolent state can achieve is ruin. In modern conditions plunder is fruitless.

Thus an open world economy allows small countries to combine prosperity with self-government. It affords the wealth of empire without its burdens. And it offers the basis for mutually enriching and peaceful relations among nations.

This was the view of the classical British liberals in their struggle against tha imperialists. Liberalism was right in principle, but imperialism triumphad politically. Bellicose international relations and territorial expansion always serve some interests, just as there are people who gain pleasure from belonging to a great power or sitting at the top table. But none of this has anything to do with securing a prosperous future for the peoples of the world.

Hong Kong is a small place. But it provides big lessons. It is neither a country's size nor its power that matters for its people's prosperity. All that is needed are honest government, modest taxes and liberal trade. Thesa are more than the basis for prosperity. They are also the best way to secure harmony, at least among civilised states.

* *The State in a Changing World, World Development Report 1997 (New York: Oxford University Press, for the World Bank)*; ***Alberto Alesina, Enrico Spolaore and Romain Wacziarg, Economic Integration and Political Disintegration. Mimeo, 1997.*

Rich pickings in science

Israel's biotech industry is starting to attract venture capital, says Judy Dempsey

When Mr Alex Kozak arrived in Israel from Russia in 1985, he decided to continue his studies, completing a doctorate at the Weizmann Institute, one of the leading scientific research centres.

He was trying to develop a drug which could specifically identify diseased tissue. But in order to make progress, he needed money.

The Office of the Chief Scientist, which is attached to Israel's ministry of trade and industry, offered Mr Kozak funding for two years in a technological "incubator" in the early 1990s. The incubator is part of a state-financed programme set up to assist entrepreneurs in turning projects into commercially viable ventures.

"I saw Alex had a great idea," says Ms Yaffa Beck, who had been involved in raising capital for biotechnology. "I saw there was no capital available for him. The venture capital funds were not yet ready to branch out into biotechnology. They had no experience."

Investing in Israeli high-technology industries has long been fashionable and profitable, attracting nearly $700m of venture capital over the past decade.

Young engineers and computer experts from the defence industry have been trained to solve problems quickly and have a sharp entrepreneurial spirit – unlike the, usually older, scientists in the laboratories. "The discipline was entirely different," says Mr Yoram Karmon, chairman of Peptor, a drug company producing a decoding mechanism to identify antibodies.

In addition, investing in the rapidly growing market for internet and communications services produced a quick result, in contrast with the life sciences. "Biotech research takes time and it is highly specialised, so venture capitalists hava tended not to understand the area," adds Mr Karmon.

However, there is change in the air. Over the past two years, venture capital funds have at long last begun to take an interest in Israel's biotechnology industry.

"This market has huge potential," explains Mr Haim Aviv, chairman of the National Committee for Biotechnology and a professor at the Weizmann Institute.

Mr Aviv set up Pharmos, a biotechnology company specialising in the development of drugs for the eye and brain, five years ago.

"There is a growing need for innovative medicine, healthcare and diagnostics. I have recommended to the government that it give the lead in underwriting funds for this research. But at the end of the day, my goal is to have dedicated venture capital funds for biotechnology."

He believes the sector could attract venture capital funding of between $2bn and $3bn over the next five years.

In 1994, Ms Beck invested $20,000 of her own money into Kozak's research project, which by then had been established as a company, D-Pharm.

"What Alex needed was managerial and entrepreneurial back-up to raise capital," sha explains. Putting her own scientific background and managerial skills to work, she helped D-Pharm attract its first venture capital investment of $2m in 1995, from Advent and Walden, US venture capital funds.

Two months ago, Ms Beck arranged the successful completion of a $6m private placement, funding that will allow the company to accelerate the development of drugs for the treatment of epilepsy, cardiac ischaemia, brain stroke, cancer and viral diseases. The company has a staff of 30 and is now valued at $12m.

Israel'e biotechnology industry is changing in its approaches to attracting venture capital. Just as the high-tech young men and women could boast about the advantages of coming from the highly funded defence sector, so too the scientific community is beginning to market its strengths.

It is selling the fact that Israel has seven universities and five technical colleges and 10 specialised research institutes with 35 per cent of the scientists – approximately 12,000 – involved in life sciences.

But Ms Beck, who is now executive vice-president and chief operating officer of D-Pharm, believes these strengths are not enough.

"You have to marry managerial experience with the scientific know-how. That way we will be able to sell the product," she says, adding that there was a growing synergy between high-tech and the sciences. "Take the example of telemedicine or combining medicine information and communication, or visualising diseases on the screen."

Some of the large venture capital funds – Gemini and Apax-Leumi of Israel and Walden and Advent of the US – are moving into medicine, diagnostics and biotechnology. The sums are paltry compared with the high-tech industry – less than $12m a year, excluding private placements – but they are growing.

Such funding is certainly not yet enough to finance long-term research.

"We know that," says Ms Beck. "Which is why the biotech companies are now much better managed to attract capital. They are seeking co-operation with the pharmaceutical industry, seeking private funding and as the product makes progress, these companies will start preparing for an initial public offering."

D-Pharm intends to top up its $8m of funding to $20m in coming years and hopes to go public in 1999.

Mr Aviv believes others will follow. "With the right combination – people with managerial skills, good products and technology – we'll get success."

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LETTERS TO THE EDITOR

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Budget and millennium bomb

From Mr John L. Ivinson.

Sir, The computing press regularly publishes the estimated budgets of the cost to leading UK companies of making their information technology systems compliant with the end of century date roll-over (the millennium problem).

Many of these figures are in tens and hundreds of millions of pounds and, alarmingly, there is anecdotal evidence that they are too low by a factor of four or five.

There is also uncertainty as to the scope of the activities covered by these budgets. Do they only cover the cost of data and code conversion, or do they cover embedded chip technology investigations and the possible costs of litigation?

In the final analysis, the costs will undoubtedly impact the bottom line in almost all annual reports and I predict that pre-tax profits will be down for the next four or five years, reducing the flow of monies into the Treasury.

Has the chancellor taken this into account in his longer term budget forecasts?

In addition, has he also taken into account the anticipated costs of millennium conversion of government departments such as ministries of defence, social security and health, which have still to be announced!

And all this before we have even started on Emu, which, it is suggested, will be even more expensive!

John L. Ivinson,
(British Computer Society spokesperson for the Millennium Issue),
38 Maresfield,
Chepstow Road,
Croydon CR0 5UA, UK

Firmness foremost

From Mr R.K. Hodge.

Sir, Jo Rogaly's column "Teenagers – is thumping the only answer?" (Weekend FT: June 21/22) made interesting reading, but I hope the author took time to read Ian Hislop's account of personal experiences in tha Sunday Telegraph magazine on June 22.

Longer-term solutions are commendable but firm law enforcement is needed first and foremost.

I hope our new prime minister remembers the order of words used in one of his election promises: "tough on crime" came before "tough on the causes of crime".

R.K. Hodge,
320 Bunyan Court,
London EC2Y 8DH, UK

Raid needs explanation

From Mr L.G. Brookes.

Sir, You report ("Windfall tax to yield $3bn more than expected", June 27) that £3.5bn of the £5bn the chancellor, Mr Gordon Brown, seems likely to raise by abolishing dividend tax credits, though maintaining advance corporation tax, will come from pension funds. Perhaps Mr Brown should explain why it is less reprehensible for him to raid pension funds and use the money for other purposes than it was for Robert Maxwell.

L.G. Brookes,
16 Ashley Drive South,
Ashley Heath,
Ringwood BH24 2JT, UK

Real justification for BA cabin crew strike call

From Mr Bill Morris.

Sir, *Lex* is in error if he feels that the T&G lacks a "compelling casus belli" in our dispute with British Airways ("Air strike", June 26).

Under BA's proposals, basic pay for new stewards and stewardesses will drop from £9,700 a year to £8,000. Most cabin crew will work longer hours for, eventually, lower earnings.

In addition, BA has refused to negotiate over its plans, has sought to impose them on our members, has closed down union offices at Heathrow and Gatwick in secret midnight raids and, misleadingly, told staff that they could be individually sued for damages if they strike. Little surprise that staff have voted by an unprecedented margin to take industrial action unless tha company adopt a more constructive approach to employee relations.

The T&G prefers pax to belli, but unfortunately the company has given its own employees more than enough casus to start the latter.

Bill Morris,
general secretary,
T&G Central Office,
Transport House,
Palace Street,
Victoria,
London SW1E 5JD

A first for Hong Kong

From Mr Charles W. Fryer.

Sir, Although it was not quite planned that way, Hong Kong must surely rate as the first, and undoubtedly tha most successful, Build-Operate-Transfer scheme that the world has known.

Charles W. Fryer,
Chelmarsh,
Daysey's Hill,
Outwood, Redhill,
Surrey RH1 5QY, UK

SGS-Thomson took on R&D project risk at own cost

From Mr Enrico Villa.

Sir, We wish to clarify some statements in Emma Tucker's article "Cresson halts EU block on state aid to chips venture" (June 20), referring to state aid to R&D activities now under review by tha European Commission. If left uncorrected, the statements that could lead to inaccurate conclusions about SGS-Thomson'a research and development funding approach.

Contrary to the impression conveyed in the article, the project submitted for approval by the Italian government did indeed present a very high level of innovation content, generating 69 filed patents in Europe, the US and Japan. Of these, 25 pertain to innovation and advancement in process technology and 44 concern new circuit and architectural solutions.

In 1992 and 1993, when the project was presented to and pre-selected by the Italian Ministry of Research, it was fully in line with the Italian legislation and the EU rules, and still is. In 1996, however, while the project was still waiting to be examined by national and EU authorities, the EU changed its focus about R&D projects to pre-competitive, incremental and non core-business activities. SGS-Thomson is strongly convinced that the project is qualified for R&D state aid even according to the new EU focus.

Far from obtaining a "big pay-out", as suggested in the article, we decided to take on the risk of initiating financing for the project at our own cost. To date, after nearly five years of working within the requirements of the Italian and EU programmes, no decision is taken nor any financial aid received.

Enrico Villa,
corporate v.p.
director external technological co-ordination,
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France

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Tuesday July 1 1997

Indian imports

Rarely can a country have fought as stubbornly as India for the right to damage itself. That is the only possible response to the fact that India insists it should be allowed to liberalise its controls on imports of consumer goods over five to seven years. It should liberalise more quickly. Its failure to do so suggests that its trade diplomacy has yet to catch up with its reforms.

For four decades India has used the Gatt's balance of payments escape clause as e justification for its import controls. The tightest controls of all were imposed on imports of consumer goods, which were excluded from the Indian market almost altogether. Sheltered behind a wall of protection Indian enterprises developed a wide range of high cost, low quality products.

The rationale behind this policy was that scarce foreign exchange should not be wasted on fripperies for consumers. But these controls then provided tha largest profits to industrialists with licences to produce the banned items. The ludicrous result was that prodncers of soft drinks, for example, have been far more heavily favoured than makers of machinery.

This was but the beginning of the absurdity. Scarcity of foreign exchange was not a drought that came from malign gods. It was a direct consequence of the protaction granted to inefficient import substitutes, worsened by tardy adjustments of the exchange rate. The tight controls aggravated the ecarcity they were intended to alleviate.

Bad things, too, come to an end. From the middle of 1991 India has implemented a more competitive exchange rate, liberalised many of its import controls and lowered its tariffs. But the protection for consumer goods has lasted. Then in January of this year the International Monetary Fund announced that, with foreign exchange reserves ronghly equal to eight months imports, New Delhi could not claim balance of payments justification for its import controls.

India's partners are suggesting the controls should be lifted over two to three years. It is in Indie's own interest to agree, where necessary replacing controls with temporarily high tariffs. This would begin to even out protection, increase competition and generate tariff revenue. Particularly if liberalisation is eccompanied by e depreciation of the exchange rate, India's rural majority and its exporters should benefit.

The liberalisation India's partners desire is no harmful exaction. New Delhi should use the pressure to accelerate reform, rather than fight for the right to stop imports as long as possible.

Changing BA

Yesterday's vote by British Airways' ground staff in favour of industrial ection confirms that the airline is uow the focus of the first big industrial coufrontatiou since Labour's arrivel lu power. Taken together with last week's support by cabin crews for strike action it raises wider questions about the state of the labour market and the management of industrial restructuring.

Both these disputes are essentially about change. The new pay packages offered to the BA cabin crews are not fundamentally contentious. The dispute, according to the Transport and General Workers' Unlou which represents the disaffected staff, is over the imposition of e deal without negotiation. For its part BA claims that the unlou walked away from negotiations.

The ground staff, meantime, object to the contracting out of catering services after earlier belt-tightening to put them on a profiteble footing.

It is hard to argue with Mr Bob Ayling, the BA chief executive, in his assertion that restructuring will be needed if tbe airline is to cope with increasing competition. The real issue is wbether BA, and indeed other Britisb companies, can go through another round of restructuring without the support of the workforce.

When the British airline was impressively restored to profit in the 1980s, it was against the background of the deepest recession since the war. It was also under a government that made it clear that there was no permanent financial drip-feed for loss-making state enterprise. Everyone knew they were engaged in a battle for survival.

Today the British economy is buoyant and labour market conditions are tight. The new Labour governmeot is untested in industrial relstions. And it is much harder to couvince employees that nemesis is around the corner, especially when companies are making large profits, as et BA.

Whether they will be persuaded on this score by BA's epparent threats to dismiss and sue cabin strikers, and to dock pension rights, is a moot point. The management bere is not dealing with the militant British motor industry of the 1970s bnt with staff who have voted in e secret ballot and are not obviously susceptible to rabble-rousing.

What is clear is that BA has adopted a high-risk strategy. Mr Ayling eppears to be losing touch with part of the workforce. Since the potential strikers are the front-line troops in a service industry, this confrontational approach is potentially double-edged. It would be e tragedy if e heavy-handed stance by management and unions at BA were to jeopardise the hard-won efficiency gains of the past decade and a half. So, too, with the rest of British industry as it restructures further.

Re-regulation

Eveo without a new government, it would have been time for a fresh look at UK utility regulation. The review launched yesterday by Mrs Margaret Beckett, tbe trade and industry secretary, is therefore welcome. But there are a number of principles the review must follow to prove fruitful.

First, it must recognise the success of the regulatory process so far – sometbing that Labour politicians, wbeu in opposition, sometimes seemed to doubt. Despite inheriting legislation that was in many cases flewed, the regulators have eliminated the most glaring anomalies and tightened np controls that were initially too lax. Tbe telecoms regulator's new powers on competition, the gas regulator's role in the break-up of the original monolitb, the water regulator's move to five-year reviews – all these are echievements by individual regulators.

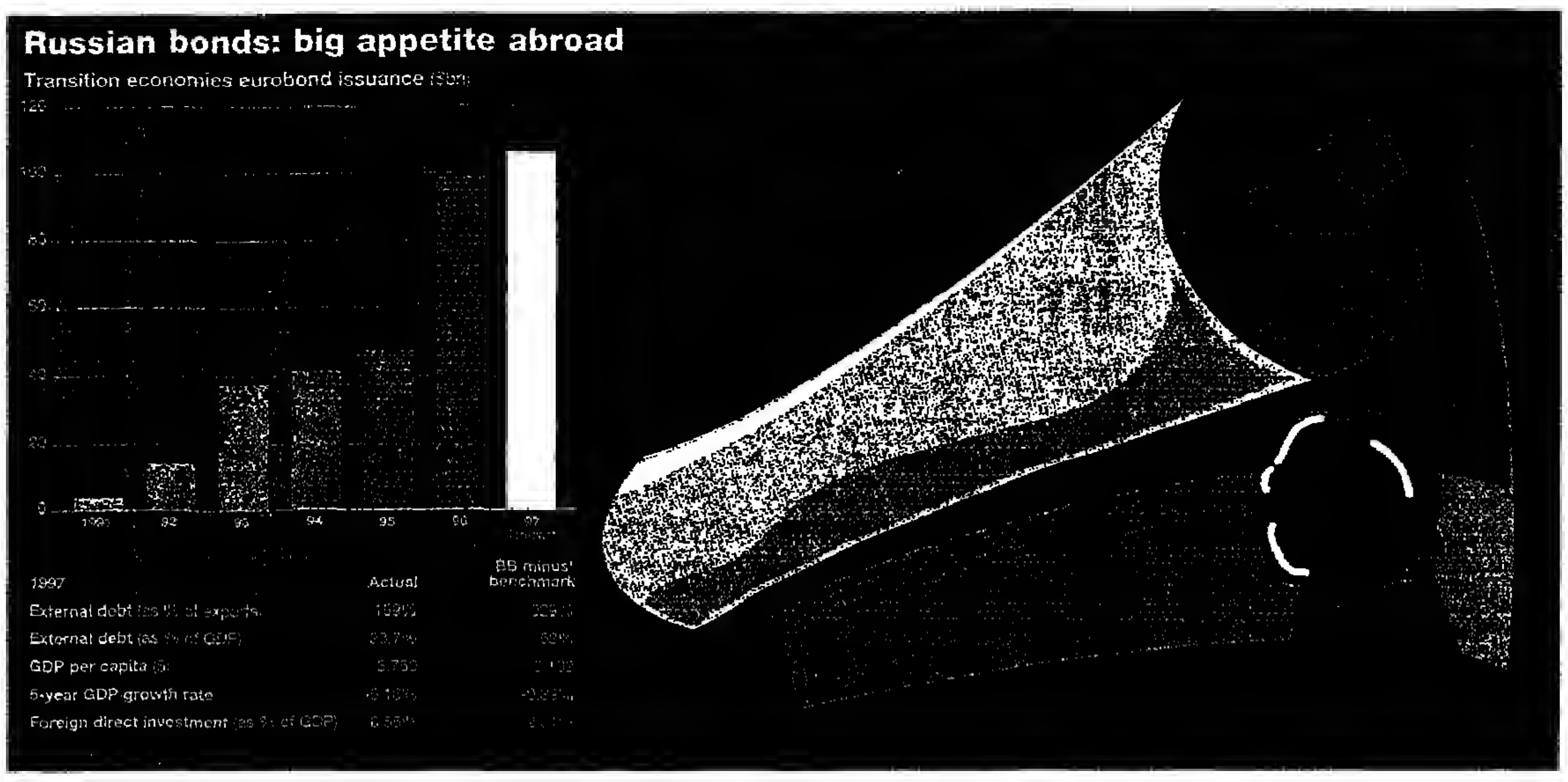
The second issue for the review revolves around that word "individual". There is too little consistency in the regulatory framework. In the system's infancy, there was a case for competition among regulators, to produce a rapid evolution of best practice.

With the benefit of that experience, it is now time for more common standards on, for example, the definition of regulated assets. The review should stndy ways of combining greater consistency – for example, through a broad-brush regulatory code – with the energy and independence of action of the current system. Because of the need for consistency, it is a pity that the review does not cover transport utilities.

The biggest issue of all, however, is tbe fundamental approach to setting prices. The existing system, RPI minus X, allows prices to rise in line with inflation iess e factor (X) for productivity gains. If companies achieve productivity growth faster than the target, they achieve higher profits. In some cases, where the X factors were arguably set too low, this has resulted in spectacular profits.

Mrs Beckett has ruled out a switch to the "rate of return" approach common in the US. The review will consider another proposed alternative, "profit-sharing" betweeu consumers and shareholders. But Mrs Beckett gave it only a lukewarm endorsement yesterday, which may indicate a dawning recognition of the practical problems it poses.

Such welcome realism showed up also in her comments about the need to maintain incentives for innovation and investment, and an adequate return to shareholders. If the review approaches its task in e similar frame of mind, it stands every chance of success.



Pitfalls in the paperchase

Foreign investors are snapping up Russian bonds although the bonanza raises fears of a credit crunch, says **John Thornhill**

A new vocabulary has sprung up in Russia as the language of Anglo-Saxon finance sweeps through the country's business world.

Even in the remotest oil towns of Siberia, Soviet-era "red directors", reared on Marxism-Leninism, chatter excitedly about the prospects for issuing *evroobligatsii* (eurobonds) or *amerikanskie depozitarnye raspiski* (American Depositary Receipts). The jargon highlights a changed economic reality and a potentially spectacular investment opportunity: Russia's 15,000 biggest privatised companies are exploring new ways of raising capital to upgrade their operations.

The country's underdeveloped banking system and the absence of strong intermediary financial institutions, which could recycle domestic savings into productive investments, have left companies with few options but to look abroad for fresh funds. A domestic mutual fund industry is evolving, but it must overcome popular distrust of financial institutions. It has attracted just $20m (£12m) of capital in the first six months of existence.

Last month, Mr Dmitry Vasiliev, chairman of the Federal Securities Commission, chaired e conference encouraging Russian companies to tap the $1,000bn eurobond market, which offers far cheaper longer-term finance on e scale unavailable from any domestic source. "Even if we take just 1 per cent of that $1,000bn, you can figure out how much money can be invested in Russian bonds," he said.

Access to debt finance by individual companies was smoothed last year when Russia made the country's first sovereign debt issue since the 1917 Bolshevik revolution. This came after obtaining an international credit rating of BB minus which classifies the country's risk as similar to thet of tbe Philippines or Mexico.

The Moscow and St Petersburg city governments quickly followed with their own eurobond programmes while other municipal authorities, including Nizhny Novgorod, Sverdlovsk, and Tatarstan, accelerated their plans. Several big companies, including the utilities Gazprom, Lukoil, Rostelekom and Mosenergo, aim to tap debt foreign markets this year. To date, 23 Russian borrowers, including 21 commercial banks, have already raised more than $3.5bn in loans from syndicates of foreign banks.

Analysts estimate Russian entities could borrow as much as $10bn from international investors this year as bankers and fund managers, flush with cash from the global liquidity surge, devote a small slice of their portfolios to eastern Europe.

Such has been the enthusiasm for these novel Russian assets that the government recently doubled the planned size of its latest eurobond issue to $2bn and claimed it could have sold up to $4bn. "I think this trend will accelerate sharply next year as companies devise serious capital-raising plans, as transparency improves and as companies obtain New York listings," says a western banker.

Economists predict that a rapid inflow of international capital could spark renewed investment in the economy, lifting Russia out of its severe depression. But analysts suggest that, while the potential bonanza presents Russia with great economic opportunities, it opens up a new dimension of financial risk that must be carefully controlled. Bankers question whether Russia is not risking a credit crunch in a couple of years when inexperienced local government officials and corporate managers prove unable to service their debts, thus scaring away investors.

"Russian companies and governmental entities still have to wake up to the fact that they have to pay this debt back," says Mr Dirk Damreu, analyst at Renaissance Capital, e Moscow-based investment bank. "Debt is debt when you borrow it abroad whereas domestic debt has always been infinitely negotiable."

On the face of it, Russia should have few difficulties sustaining high levels of both government and corporate debt: it is rich in natural resources, which can be used to back a substantial borrowing programme. Mr Eric Fine, a debt analyst at Morgan Stanley, the US investment bank, reckons Russia has extremely strong credit fundamentals – such as external debt to export ratios – when set against other countries rated in the same risk bracket. He dismisses many of the perceived political risks surrounding Russia as little more than distracting "noise".

He estimates that Russia could issue up to $100bn of debt without straining its benchmark credit ratios and argues that the country will be awarded a higher investment grade rating within two years. "Unlike many countries which are leveraging themselves against future expectations of gross domestic product growth or domestic consumption, Russia is leveraging itself against tradeable commodities in the ground which can earn hard currency," he says.

Some Russian companies boast large hard-currency earnings and colossal assets: Gazprom's proven gas reserves are estimated to be 28 times those of Exxon, its US rival, while a handful of Russian oil groups is among the world's top 10 in terms of reserves.

Moreover, these energy companies, which are developing a voracious appetite for capital, have almost no long-term borrowings, giving them considerable scope to gear up their balance sheets. Domestic banks have been unwilling to extend long-term finance because of Russia's inflationary climate; six months counts as a long time in Russian finance.

Although the Russian stock market has doubled in dollar terms this year, most company directors appear reluctant to sell their companies' shares to raise funds as they believe their equity is undervalued by international atandards. Mr Vasiliev argues that equity finance can also compromise corporate control – a particularly sensitive issue in a nationalistic country. "When shares are issued, a change in the alignment of forces takes place," he says. "It may lead to a hostile takeover which makes corporate leaders – and old shareholders who want to preserve the status quo – nervous."

The most glaring doubts over the ability of Russian borrowers to meet their obligations concern the solvency of the government itself. Moscow has amassed heavy domestic debts and is struggling to pay off its arrears to federal employees and the armed forces – let alone its overdue bills to the gas and electricity sectors.

Mr Pyotr Rodionov, deputy chairman of Gazprom, recently lambasted the government for its "improper" budgeting procedures, claiming it had in effect used the utilities industries as a form of off-balance sheet financing. He said schools, hospitals, and defence plants had stopped paying their energy bills last year as the government hunted for money ahead of the presidential elections. "We should not deceive ourselves, our society or the world community by saying that we do not have a budget deficit while we are building this deficit in clandestine form into our budget," said Mr Rodionov, who is a former energy minister.

Such concerns are echoed by some foreign financiers. Mr George Dallas, emerging markets managing director for Standard & Poor's, the international credit rating agency, says Russia has always had a good reputation for honouring its external debt commitments. But it should remain as scrupulous about honouring its domestic debt obligations if it wanted to win the full confidence of international investors. "Even at the governmental level it has become politically acceptable not to pay your obligations on time to your suppliers and to your employees. That type of mentality simply has to cbange," he says.

Some bankers also question whether Russia's municipal authorities and companies might not spring some unpleasant surprises on investors. The business climate in Russia is still maddeningly opaque: borrowers might reveal liabilities undetected by their financial advisers or the credit rating agencies. For example, investors have been attracted by the apparent solidity of Moscow city's budget, which has shown a healthy surplus. But some financiers are concerned that the tendency of Mr Yuri Luzhkov, Moscow's mayor, to prop up lame industrial manufacturers, such as the Zil and Moskvich car plants, might squeeze the city's purse.

Investors may also question the way in which borrowers intend to use their new capital. Gazprom, for instance, has made it clear it needs to raise additional capital to pay off its tax obligations to the government. Using long-term finance to meet short-term needs strikes many bankers as a profligate misapplication of funds.

The Russian financial authorities have shown they are aware of many of these risks. Both the Ministry of Finance and the central bank are acting as aggressive gatekeepers to the international debt markets.

Mr Vasiliev says no Russian company can make a eurobond issue without hiring an investment bank, producing audited accounts and satisfying the demands of a respected credit rating agency. Only those municipal authorities which are net contributors to the federal budget can issue international debt while their obligations are capped at 30 per cent of their revenues.

But Mr Dallas says the Russian regulatory authorities will have to exercise rigorous scrutiny. Any default by a Russian entity would send the price of debt soaring, he says, while liquidity would be likely to dry up overnight.

"Investors do not forget things like that in a hurry," he says. "If you make a mistake yon spoil the party for everybody."

OBSERVER in Hong Kong

Fat Pang's final fling

■ Chris Patten, Hong Kong'e last British governor, did e thorough job of breaking with tradition before he sailed away from the territory yesterday.

The governor's gleaming black Rolls-Royce circled the Government House driveway just once: previous governors have done three tours as they leave office, a manoeuvre meant to bring luck and to ensure a return to Hong Kong.

So was he running late? Or does he intend never to return? The latter would be a blow to the many who are sad to say farewell to perhaps the most popular of Hong Kong governors, jostling for a final handshake during his recent walkabouts and even sending e custard tart for "Fat Pang" during his final radio phone-in.

Less distressed would be Patten's "friends in Happy Valley" as he refers to officials in Beijing's Xinhua News Agency, the *de facto* Chinese embassy. Despite a softer tone of late, Patten is still vilified for his democratic reforms in the territory. Many in China are eager to see the back of him. Three laps of the driveway, holding out a promise of returning, might have driven them round the bend.

Wet and woolly

■ You could tell who the Brits were at the handover banquet in Hong Kong last night: the ones with the wet socks. The smell of damp worsted was a delicate counterpoint to the salmon and stuffed chicken breast.

It rained at the sunset farewell ceremony – and rained and rained, rattling on the yellow umbrellas thoughtfully provided by the authorities, pouring in great sluices down the trouser legs of the assembled dignitaries. But umbrellas were cast to one side, the elements defied for outgoing governor Chris Patten's powerful speech and the massed bands. On the closing bars of the British National Anthem, the heavens opened in what the Brits took as e celestial symbol. The Prince of Wales's speech was drowned out by the beating of water on metal scaffolding.

The handover ceremony was a more sober affair – and indoors. Busbied bandsmen on the right of the stage vied tune for tune with those from the Peoples' Liberation Army on the left. And there was no political significance in the British contingent's silence during the speeches, while the Chinese applauded. It's hard to be diplomatic when your feet are wet.

Chamber music

■ The business bent of Hong Kong's post-colonial elite is writ large in the declarations of interest presented to the new Beijing-backed legislature that took office this morning.

More than two-thirds of the 60 members are company directors or major shareholders. But no-one matches the "Trouser King" Yeung Chun-kamm the textiles magnate, who holds 211 directorships and has shareholdings in 258 companies.

New bloom

■ One of the first tasks for Hong Kong's new chief executive Tung Chee-hwa will be to hand out Hong Kong's very own new honour, the Grand Bauhinia Medal, bearing the flower which is the territory's new emblem.

The first list of recipients is an indication of who's in in the new Hong Kong. Henry Fok and T.K. Ann, are businessmen with close connections to China and to Tung. Lo Tak-shing is a conservative lawyer who tried for the chief executive job. British-born missionary Elsie Tu was a thorn in the side of Government House and Whitehall when she campaigned against corruption and poverty in the 1950s and 1960s.

Few people in Hong Kong have ever seen a bauhinia flower. Observer's gardening friends say that, like Hong Kong itself, it's an unusual hybrid which is difficult to reproduce.

Men only

■ The "one country, two systems" concept that's billed as the cornerstone of post-colonial rule is nothing new. Britain had to fight hard for the lease on the New Territories, Hong Kong's small hinterland, and, for the sake of a quiet life, granted permanent privileges to protect its way of life. Now it's up to the new administration to deal with the proud native people, whose leader Lau Wong-fat is made of stern male chauvinist stuff.

Lau is fighting to protect the traditional rights of New Territories men to build homes within 91 metres of their villages. Not that the right itself is threatened, but – horror of horrors – there's talk of extending it to women under Hong Kong's equal opportunity rules. "As women are married to men, they have no need for housing," Lau proclaims.

The Financial Times

100 years ago

Relations With Germany
The Hamburg Chamber of Commerce, in its annual report for 1896, warns its countrymen against believing the exaggerated statements frequently made of late in England with the object of showing that German commerce and industries are about to drive British trade everywhere out of the markets of the world. Great Britain is still far ahead of Germany as regards the importance of her ship-building and ship-owning interests, and her vast Colonial Empire furnishes her with extensive markets in which Germany participates to only a small extent.

50 years ago

The Crisis In France
France's position has steadily deteriorated in the past three months. The increasing social unrest has its origin in the unsolved national wages problem. Meanwhile the wave of strikes, which began two months ago with the wage dispute at the Renault motor-car factory, continues its progress unchecked. Many people accuse the Communists of fomenting these strikes; but the real cause lies deeper than this. What gives the impetus is the constantly rising level of prices.

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FINANCIAL TIMES
Tuesday July 1 1997

FERGUSON ENTERPRISES
Number 1 in plumbing supply – U.S.A.
WOLSELEY plc

French regulator may punish banks that undercut rivals

By Andrew Jack in Paris

France's banking regulator is coosidering sanctions against financial institutions whicb persisteotiy undercut tbeir competitors and grant loss-making ioans.

Senior officials at the Banking Commissioo are discussing a range of measures because of growing evidence that competition betweeo banks is intensifying. Tbese measures include withdrawing an institution's banking licence.

The practice of lending et very low interest retas bas developed in spite of a recommended minimum thresbold at which ioans sbould be made. The threshoid – of 0.6 of a perceotage polot, or 60 basis points, below the rate of interest payable on government bonds – was set by Mr Jean-Claude Trichet, governor of the Bank of France, in 1995.

In his introductory letter to the Benking Commisslon's annual report published yesterday, Mr Hervé Hannoun, deputy governor of the Bank of France, says that during 1996 there was a "significant" increase in the proportion of loans granted by France's largest banks below this threshold.

The commission refused to give details of which institutions were transgressing the rules. It said publishing such information would encourage the more prudent banks to increase their rate-cutting. The commission'e latest action is in response to recent criticism of France'e bank reguletion following ecandals euch as that at Crédit Lyonnais, which has had to undergo a FFr50bn ($8.59bn) state-backed restructuring plan after an orgy of loose lending in the late 1980s.

Some politicians have also questioned whether or not the commission ls sufficiently independent of the government.

Preliminary indications suggest the extent of rate-cutting tailed off during the first quarter of 1997. However, both commercial and mutual banks have been criticised for using low interest rates to win busioess at e time of low activity.

The "Trichet norms" have stoked considerable debate within the French banking sector, with some institutions saying it is very difficult to publish meaningful or comparable atatistics.

Credlt controls and other state-administered restrictions on rates have been abolished in France, and banks are theoretically free to determine the interest rates at which they lend money.

But the Banking Commission said yesterday lt had already warned Individual banks that transgressed the norms. It said it intended to use its powers under banking regulatlons including new guidelines introduced this year to ensure "institutions do not allow their opereting conditions to deteriorate".

Clinton rejects Congress tax plans

Proposed cuts favour wealthy at the expense of middle class

By Gerard Baker in Washington

Mr Bill Clinton, the US presideot, yesterday rejected tax-cuttiog bills passed last week by tbe Republican-controlled Congress as inadequete.

He produced new compromise proposals aimed et achieving a final agreement to balance the federal budget within five years.

Mr Clinton eaid tbe bills passed last week by the House of Representatives and the Senate gave too much away in tax cuts to wealthier Americans and were inconsistent with the budget-balancing agreement signed by the White House and congressional ieaders two months ago. "They direct far too little relief to the middle class," Mr Clinton said. "They include time-bomb tax cuts that threaten to explode the deficit. They do not do enough to keep our economy going."

The president'e rejection of tbe congresslonal proposals confirmed that a long struggle was in prospect before tbe administration and the Congress reach agreement on a plan aimed at eliminating the budget deficit for the first time in more than 30 years.

Mr Clinton announced his own tax cuts – slight modifications of proposals he unveiled in his original budget in February. After the Independence Day holiday this week, Congrese will return next week to begin attempts to hammer ont an agreement.

The first task will be to reconcile tha House and Senate versions of the budget blll. Congresslonal leaders will then resume negotiations with the White House which are expected to continue through the summer.

Mr Clinton refused to be drawn on whether he would veto the budget bills if they were not amended to his liking. "I don't want to start talking about veto now," he said. "I want to craft an agreement consistent with the budget agreement that can be written into law."

The president's main objection was that too mnch of the rednction in the tax burden proposed by Congress would go to the better-off in the form of a larga capital gains tax cut.

All three plans propose about $135bn in tax reductions over five years, with $50bn-$70bn in revenue-raising measures, representing a net tax cut of about $75bn, the largest US taxpayers have received in 16 years. All three include a $400-$500 per child tax credit for families, although they differ in important details.

Mr Clinton also backs a bigger cut for education-related expenses, sucb as interest on student loans. He agreed to leave in place most of the capital gains tax cut passed by both houses, but opposed index-linking capital gains.

Handshake seals end of Asian empire

Continued from Page 1

provisional legislature, the Beijing-appointed body, which has replaced the chamber elected under Britain's democratic reforms.

China's abolition of the Legislative Council has been at the centre of disputes with Britain. Mr Blair made it clear bilateral relations would depend on Beijing's treatment of Hong Kong and its fulfilment of commitments in the Sino-British Joint Declaration, the treaty that underpins the handover.

The US has stepped up support of Britain's policy towards Hong Kong, calling for elections to replace the provisional legislature. Yesterday, Ms Madeleine Albright, US secretary of state, reaffirmed plans for a Sino-US summit this year.

Securities houses implicated in Japan dealings scandal

By Gillian Tett in Tokyo

Shares in three of Japan's largest securities houses, Daiwa, Nikko and Yamaichi, tumbled yesterday after a lawyer implied the companies had had improper dealings with corporate racketeers.

The allegations were made by the lawyer for Mr Ryuichi Koike, the racketeer allegedly at the heart of the scandal.

The reports pushed Nikko Securities' share price down 7 per cent to close at Y705 after heavy trading. Daiwa's share price fell 5 per cent to Y904 and Yamaichi's by nearly 3 per cent to Y341.

The allegations are likely to put pressure on the authorities to widen their investigations to cover all four of the largest securities houses. Nomura Securitiee has been under inveetigation for months. Nomura and Dai-Ichi Kangyo Bank, the country's second largest bank, have admitted financial dealings with *sokaiya* – the corporate racketeers who demand payment in exchange for not revealing corporate information.

Tokyo prosecutors have arrested more than a dozen executives from Nomura and DKB in connection with the scandal. On Sunday, a former DKB chairman committed suicide after questioning. The police have also arrested Mr Koike.

Mr Koike's lawyer yesterday revealed that Mr Koike had told police that he had had improper financial dealings with Daiwa, Nikko and Yamaichi, according to the Japanese media.

The lawyer said the three securities houses had carried out deals on Mr Koike's behalf through illegal discretionary accounts. Nomura has been accused of using such accounts to extend favours to Mr Koike.

Nikko, Daiwa and Yamaichi yesterday refused to comment on the reports. The companies have previously denied links with *sokaiya*.

Tokyo police yesterday indicted four DKB executives, including two former vice-presidents, bringing the total DKB and Nomura executives indicted to more than ten.

The sense of shock over the scandals has been fuelled by the suicide of Mr Kuniji Miyazaki, the former DKB chairman. Mr Ryutaro Hashimoto, the Japanese prime minister, yesterday said he regretted the death.

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See Lex

THE LEX COLUMN

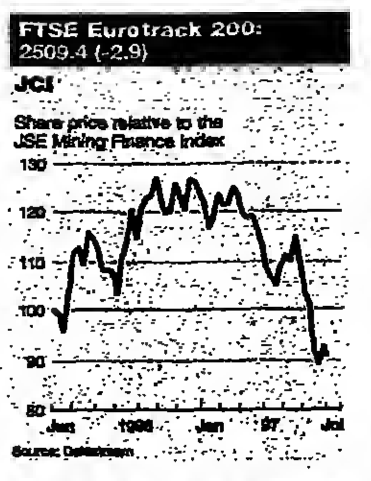
The cost of corruption

Japanese financial scandals are nothing new. In a country where a former prime minister has been convicted of taking bribes, it is hard not to believe that corruption is widespread. So reports that most leading stockbrokers, and not just Nomura, have made illegal payments to *sokaiya* – corporate racketeers – should come as no surprise. Even committing suicide in response to accusations, as the ex-chairman of Dai-Ichi Kangyo Bank did over the weekend, is not unprecedented.

What does seem to be changing is the official reaction to such scandals. In the past, bribes were considered a deplorable but unavoidable part of doing business – something oiling the wheels of a successful economy. Now that growth has slowed and competition is increasing, politicians and bureaucrats are increasingly promoting transparency to help boost efficiency. As a result they are cracking down harder: more than a dozen senior executives from Nomura and DKB have been arrested and both companies face trading bans as punishment. The companies themselves have made wholesale management changes instead of sacrificing a token executive who was often reemployed as a consultant.

The government is left with a balancing act. To bolster confidence in financial markets it must continue to root out corruption. But if it throws the book at all leading securities houses, it could risk destabilising whole sections of industry just as deregulation is opening them up to competition.

FTSE Eurotrack 200: 2509.4 (-2.9)



JCI

Billed as one of South Africa's great black business hopes, Mr Mzi Khumalo has had an inauspicious start. Yesterday saw the collapse of his much touted deal with Lonrho. But that was simply the latest in a number of embarrassments. Most notorious, of course, was the R54.50 per share he paid for his controlling stake in mining house JCI – the share is now at R35. He has also been associated with a disastrous rights issue and lost his managing director.

Cynics, unsurprisingly, are wondering whether Mr Khumalo brings any value to the group. His tribulations with organised labour, supposedly the area in which black managers would excel, have added weight to their arguments. But it would be premature to write him off. A large part of his problems is a function of his buying into a difficult industry experiencing hard times. More pertinently, of all the new generation of black entrepreneurs, Mr Khumalo is the one who looks most like a businessman, and least like a politician.

There are some grounds for optimism. A merger of JCI's coal interests with Lonrho still looks possible. And Mr Khumalo's close relationship with the energetic mining entrepreneur, Mr Brett Kebble, augurs well. Between them, they ought to be able to ensure that JCI participates profitably in the current reshaping of South African mining. But Mr Khumalo must start delivering soon if he is to lift the gloom that hangs over the shares.

Sterling

When Mr Gordon Brown, the UK chancellor, said he wanted a "stable and competitive" pound, he surely could not have had DM3 in mind. Yet that level looks ever more possible. True, many forecasters believe that DM2.50-DM2.60 is a more sustainable level for sterling. But even if they are correct – and fair value is a notoriously elusive concept in the foreign exchange markets – this is of little predictive value; currencies can diverge from "fair value" for many years.

The catalyst for a correction is normally a deterioration in economic fundamentals. So far there is little evidence. Despite the pain of exporters such as British Steel, the current account remains in good shape – mainly because the cost of imports has fallen. And sterling's attractions remain: political stability, uncontaminated by the risks of Europe's single currency project; and enticing returns, both in money and bond markets, compared to most alternatives.

What can Mr Brown do? Nominally, he remains responsible for exchange rate policy. In practice, the Bank of England holds the interest rate lever. Unfortunately for Mr Brown, the Bank's priority – curbing consumer spending – may well involve higher interest rates, further boosting the pound. His best hope is to do some of the Bank's work for it by taxing consumers in the Budget. Beyond that, patience is the right counsel: when the current account deteriorates, sterling's cyclical strength will probably abate.

UK utilities

With Labour set to impose its windfall tax tomorrow, it may be hard to believe that the utilities' worst political woes are over. But, as Mrs Margaret Beckett, the trade and industry secretary, pointed out yesterday: "The windfall tax is about the past". In launching its review of utility regulation, Labour is seemingly putting its previous, excessively populist approach behind it.

The change in rhetoric is striking. Gone are the cheap jibes about fat cats; executive rewards are now "in the first instance matters for companies themselves". Only a few weeks ago, Mr Chris Smith, Mrs Beckett's colleague at National Heritage, was lambasting lottery chiefs for not showing enough contrition over their remuneration packages.

Labour is also losing some of its aversion to profit. Mrs Beckett spoke of "creative" tension between running a public service and the need for utilities to remain competitive. In practical terms, this means the current system of price cap regulation – which gives companies a strong incentive to improve efficiency – is likely to stay. Labour's previous enthusiasm for sharing profits between customers and shareholders has rightly been toned down. Mrs Beckett's review may yet make changes to the system of regulation. But the important message is her objective of setting a long-term stable framework. Labour will have its £5bn of flesh. But after that, utilities can look forward to less risk, a lower cost of capital and maybe higher valuations.

Additional Lex note on Scottish & Newcastle, Page 23

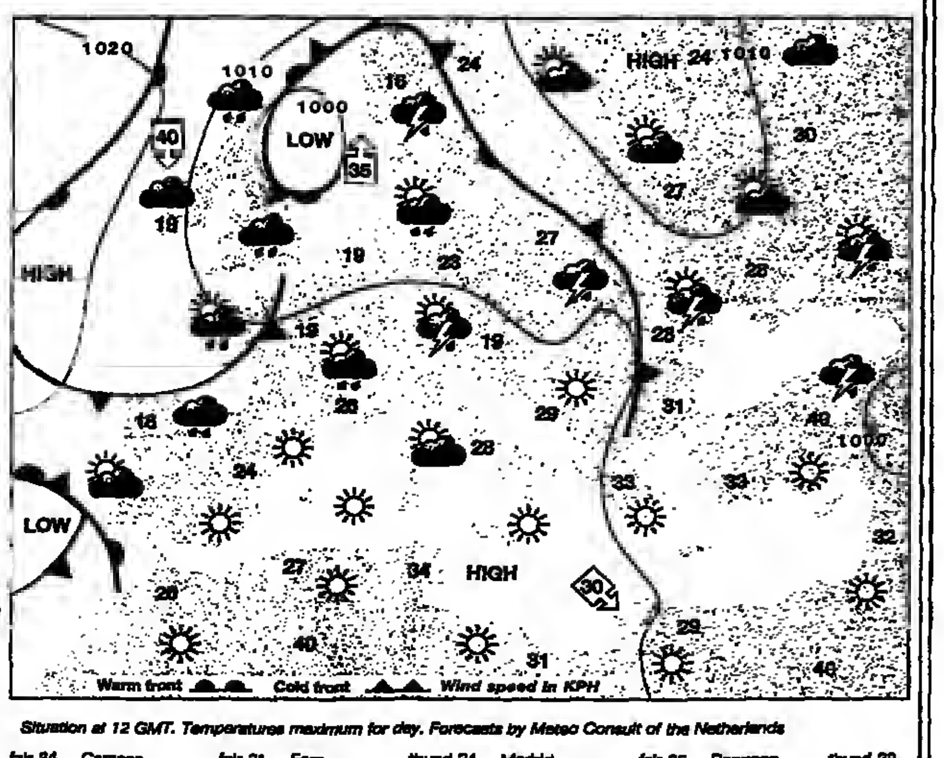
FT WEATHER GUIDE

Europe today

Most of western Europe will continue cool and unsettled. There will be outbreaks of rain, especially in England end Scotland. Elsewhere, sunny spells will be interspersed with showers. Northern Spain and Portugal will elso heve some rain. Thunder showers may reach the south-western regions later in the day. Central Europe will have variable cloud and thunder showers. There will be strong thunder storms from Poland towards the northern Balkans. Southern and western Scandinavia will have rain or thunder ahowers. Further to the northeast, it will be warm and rather sunny. The Mediterranean will continue sunny.

Five-day forecast

Western Europe will continue cloudy and cool with showers. Central Europe will become warmer but thunder showers will return tomorrow. Scandinavia will also have thunder showers but temperatures will stay rather high.



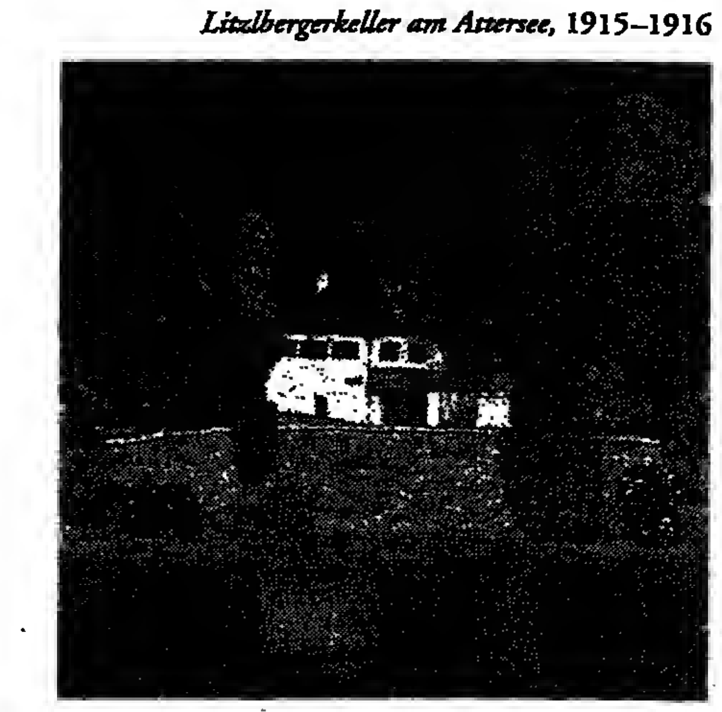
Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	fair 34	Caracas	fair 31	Faro	thund 24	Madrid	fair 25	Rangoon	thund 29
	Celsius	Belfast	drzzl 14	Cardiff	shower 16	Frankfurt	cloudy 21	Majorca	sun 28	Reykjavik	rain 13
Abu Dhabi	sun 40	Belgrade	fair 25	Casablanca	sun 24	Geneva	thund 21	Malta	sun 27	Rio	fair 24
Accra	fair 29	Berlin	cloudy 23	Chicago	fair 33	Gibraltar	sun 24	Manchester	shower 15	Rome	fair 27
Algiers	sun 27	Bermuda	fair 29	Cologne	shower 16	Glasgow	drzzl 14	Manila	thund 33	S. Frsco	sun 22
Amsterdam	shower 16	Bogota	fair 16	Dakar	fair 30	Hamburg	shower 21	Melbourne	fair 14	Seoul	rain 29
Athens	sun 33	Bombay	shower 33	Dallas	sun 39	Helsinki	cloudy 29	Mexico City	shower 27	Singapore	fair 33
Atlanta	thund 32	Brussels	shower 17	Delhi	fair 33	Hong Kong	shower 29	Miami	fair 32	Stockholm	cloudy 25
B. Aires	shower 16	Budapest	cloudy 24	Dubai	sun 41	Honolulu	fair 31	Milan	thund 21	Strasbourg	shower 20
B.ham	rain 17	C.hagen	cloudy 21	Dublin	drzzl 15	Istanbul	fair 29	Montreal	thund 24	Sydney	shower 16
Bangkok	thund 36	Cairo	sun 35	Dubrovnik	sun 27	Jakarta	fair 32	Moscow	cloudy 24	Tangier	sun 25
Barcelona	sun 23	Cape Town	fair 16	Edinburgh	rain 14	Jersey	shower 15	Munich	shower 22	Tel Aviv	sun 32
						Karachi	fair 37	Nairobi	fair 24	Tokyo	fair 28
						Kuwait	sun 47	Naples	sun 26	Toronto	thund 26
						L. Angeles	sun 24	Nassau	thund 32	Vancouver	shower 22
						Las Palmas	fair 27	New York	cloudy 29	Venice	cloudy 23
						Lima	cloudy 25	Nice	sun 26	Vienna	thund 24
						Lisbon	fair 22	Nicosia	sun 32	Warsaw	thund 27
						London	shower 18	Oslo	thund 25	Washington	thund 30
						Lux.bourg	shower 15	Paris	cloudy 18	Wellington	rain 8
						Lyon	shower 23	Perth	cloudy 20	Winnipeg	rain 22
						Madeira	fair 22	Prague	shower 23	Zurich	shower 19

We can't change the weather. But we can always take you where you want to go.
Lufthansa

GUSTAV KLIMT



Litzlbergerkeller am Attersee, 1915–1916

Sold at Sotheby's for $14.7 million in May, 1997

A World Record for the Artist's Work

SOTHEBY'S

DEATH, TAXES AND ...

FINANCIAL TIMES
COMPANIES & MARKETS

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Tuesday July 1 1997 · Week 27

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IN BRIEF

Hungary awards TV franchises

Hungary has awarded the long-awaited concessions for its first two national commercial television stations to consortia led by CLT-Ufa, Europe's biggest broadcasting and entertainment group, and Scandinavian Broadcasting System, 22.6 per cent owned by Walt Disney. It was the most costly commercial TV tender yet staged in eastern Europe. Page 22

Fiat patriarch says chairman will go
Mr Giovanni Agnelli, the 76-year-old honorary chairman of Italian automotive company Fiat, has quashed speculation that Mr Cesare Romiti, the group's chairman, will stay beyond his retirement date of June 1998. Page 22

NEC puts $285m into Packard-Bell
NEC, the Japanese electronics group, is investing $285m in Packard-Bell NEC, bringing its total investment in the US computer company to more than $1bn. NEC took a 19.9 per cent stake in Packard-Bell NEC in 1995. Page 18

News Ltd wraps up newsprint sale
News Ltd, the Australian subsidiary of Mr Rupert Murdoch's News Corporation, the international media group, has finalised the sale of its 50 per cent interest in Australian Newsprint Mills to Fletcher Challenge Paper, the New Zealand company. Page 18

Mondi appoints new chairman
Mr Peter Littmann, who made his mark in the fashion industry by transforming the image and financial fortunes of the Hugo Boss label, has been appointed chairman of Mondi, the German women's wear company. Mondi was taken over four years ago by Investcorp, the Bahrain-based investment banking group behind the revival of the Gucci fashion house. Page 22

Unilever sells John West to Heinz
Unilever, the Anglo-Dutch consumer goods company, has announced the sale of its UK-based John West Foods business to HJ Heinz, the US foods group, for an undisclosed sum. Under Unilever's stewardship, John West commanded 35 per cent of the UK canned fish market. Page 27

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
DLW	218.2	+	9.2
Porsche	2320	+	190
Volkswagen	1337	+	32
Falls			
Allianz	365	-	9.2
Heidelb Zem	165	-	5.5
MAN	537	-	11
NEW YORK ($)			
Rises			
Excel Comm	28¾	+	2½
Rykoff-Sxtn	23¼	+	3¼
Vanco Intl	32⅛	+	1⅛
Falls			
Comsat	27⅛	-	4⅝
JP Foodservice	28½	-	1¾
Dun Sciences	58¼	-	2⅜
LONDON (Pence)			
Rises			
Bridon	135½	+	29½
Howard Whitng	82	+	14
Ulster TV	1795	+	125
Falls			
Jardines	1174	-	20
Merrydown	55	-	12½
Next	676½	-	26½
TORONTO (C$)			
Rises			
Coolest	3.5	+	0.5
Grad & Walker	11.15	+	1.45
Intrmetco	14.75	+	1.35
Falls			
Gaming Lottry	6.9	-	0.4
Invex Tpy	5.1	-	0.4
Microcell	1.38	-	0.34
PARIS (FFr)			
Rises			
Credit Otto	970	+	29
SLE	913	+	18
Falls			
Air Liquide	833	-	36
Bouygues	483.5	-	13.4
Interbail	175	-	25
Soc General	656	-	24
TOKYO (Yen)			
Rises			
Roche	617	+	25
JGC Corp	793	+	37
Nissan Mtr	890	+	29
Falls			
Daiei Inc	735	-	29
Daiwa Sec	504	-	45
M'bishi Oil	510	-	25
BANGKOK (Baht)			
Rises			
Dusit Itn	77.5	+	7.0
Thai Factory	55.5	+	5.0
Un Bk of Bkk	105.0	+	9.0
Falls			
Nakornthon Bk	36.0	-	3.75
Sclande EBE	24.75	-	2.75
Tsung San Fd	30.25	-	3.25

Hong Kong closed. New York and Toronto prices at 12.30pm.

Andersen acts to heal split

Consultancy fails over key appointment

By Jim Kelly
Accountancy Correspondent

The board of Andersen Worldwide, the world's largest accounting and consulting organisation, yesterday appointed a temporary new chief executive in a bid to buy time to mend internal divisions.

Having twice failed to win the backing of the organisation's 2,700 partners for its choice for the job, it asked the chairman of the board – Mr Robert Grafton – to take the post of acting chief executive.

Meanwhile a new "high level" group is to examine "key organisational issues" and report back to the board by spring next year. Only then will the electoral procedure start again to replace Mr Larry Weinbach, who retires on August 31.

The board, meeting in a New York hotel following the failure of its second nominee to gain a winning margin, said it wanted to "decouple" the issue of the election from that of resolving tensions within the organisation.

"The board obviously felt a third candidate would suffer the same fate as the last two – now they have a chance of making a breakthrough over the big issues," said a US insider. The relatively short timetable set for the "high-level" group to put forward proposals – and the lack of any detail on how the group would be chosen or operate – signals the urgency with which the board wants the current problems resolved.

The partners of Andersen Worldwide – a majority of whom are from the original firm of Arthur Andersen – have been divided over payments for so-called "internal income support" which they receive from partners at their sister firm Andersen Consulting.

"Turf wars" have also broken out between the two firms, particularly in the US, over management consultancy contracts. Plans have been floated in the past to bring all consultancy work under Andersen Consulting control.

The failure of two candidates for the post of chief executive - one from either side of the organisation – to gain the required majority of two-thirds appears to signal that partners are voting on tribal lines.

Mr Grafton, who is 56, has been a partner for 25 years and is a regional managing partner in the US for Arthur Andersen. He has been chairman of the board of partners of Andersen Worldwide since 1994. His mandate as acting chief executive is to "concentrate on developing specific proposals concerning internal organisational issues".

Andersen Consulting partners believe that the organisation's constitution does not reflect the weight of their contribution. Although the consulting arm has greater turnover and growth, Arthur Andersen has more partners and a majority on the board.

At a recent meeting in Paris partners voted to keep the organisation together under the Andersen Worldwide umbrella. But some partners think the pressures will eventually lead to a complete split.

Argentina revives ambition to trade in futures

By Stephen Fidler,
Latin America Editor

Argentina is reviving plans to launch a financial futures and options market despite the failure of a previous effort in the past five years.

According to Mr Javier González Fraga, a former central bank president now heading the futures market project, the lessons of the previous failure have been learnt.

One mistake was to have a futures market inside the floor of the "cash" market – the stock exchange itself. "You need full-time traders," he said. He added that the role of settlement was much more critical in a futures market than in the stock exchange, where the task was simply to provide delivery of shares against the payment made for them.

Settlement in the futures market is much more a question of liquidity management, and confidence in the procedure must be high: "You have to check every 15 minutes that the guarantees are sufficient." A clearing house was being established now that would take this into account.

The other main lesson was that "you need an experienced partner", he said. The Chicago Board of Trade was taken on as adviser in December 1995.

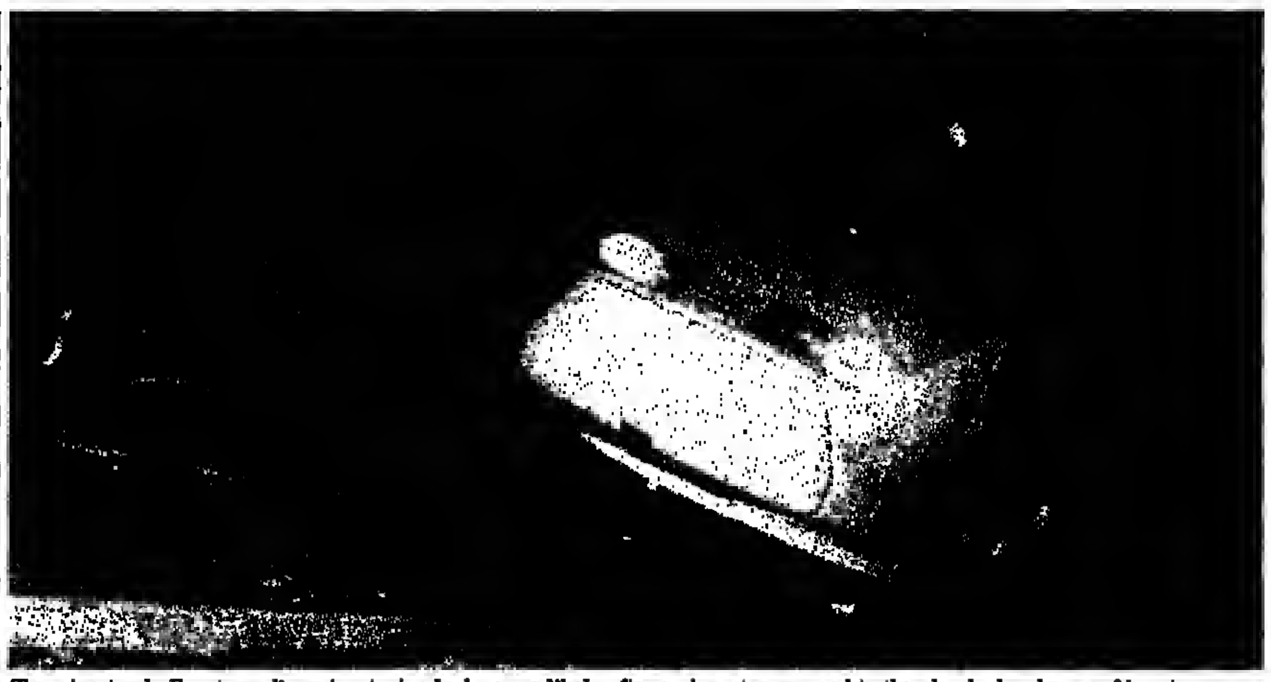
Mr González Fraga said the aim was to establish a futures market with a sufficient level of competitiveness to attract international participants. "We plan to have everything ready by the end of this year... The idea is to become something that might receive a higher rating than the country receives from the rating agencies," he said. Argentina is rated BB by Standard & Poor's, two notches below investment grade.

The higher rating would be achieved in part by using a credit enhancement by "a major multinational insurance company", he said. The exchange was also working with the Inter-American Development Bank to provide an agreement to cover sovereign risk, for example, if a future government decided to establish exchange controls.

The planned contracts will fall into several categories: short-term and long-term Argentine peso and dollar interest rate contracts; contracts on currencies including the peso-dollar exchange rate and the peso-Brazilian Real rate; and on two stock market indices, the Burcap and Merval, options on individual stocks already being traded on the stock exchange. There may also be an index on government bonds.

Subscription for seats will begin in August: some 250 seats will be reserved for members of the stock market, with a further 250 seats for sale more generally. There will be 50 members of the clearing house. Contracts will be traded on the floor by open outcry, which it is hoped will encourage local speculators. There will also be an electronic matching system for trades.

There is some scepticism in Buenos Aires. The Merval, it is pointed out, is not of much interest to international investors because it is heavily weighted with traditional stocks of limited interest to US investors.



Changing track: Eurotunnel's restructuring looks more likely after an investor opposed to the plan had a change of heart

Investor's U-turn lifts hopes for Eurotunnel restructuring

By Andrew Jack in Paris

The prospects of Eurotunnel winning shareholder approval for its financial restructuring improved sharply yesterday after an investor who had been opposed to the deal agreed to vote in favour.

Ms Sophie L'Hélias, of Franklin Global Investor Services, who was collecting proxies on behalf of investors opposed to the restructuring, said her principal client had switched its position and was instructing her to vote in favour.

She has never identified who she works for, but Eurotunnel confirmed yesterday that Northern Cross Investments, which it described as a "long-term investor" holding nearly 36.7m shares, had decided to support the restructuring and had offered its support to the company.

The change sharply tilts the balance of power ahead of the extraordinary general meeting of Eurotunnel on July 10, at which shareholders will be asked to approve a restructuring of the Channel tunnel operator's £8.5bn ($14.1bn) debt.

Investor groups in the last few days had been close to gathering sufficient votes to win a blocking minority of 25 per cent – with as little as 58m votes – that could have prevented the plan going through. But without the support of Northern Cross, their campaign has little chance of success.

The change of heart follows a meeting requested by Mr Patrick Ponsolle, Eurotunnel's chairman, which he held with Northern Cross in Boston last Thursday.

Northern Cross had previously demanded that Eurotunnel's banks write off 25 per cent of the value of their loans to the company. It also wanted Eurotunnel to create a further category of shares to avoid diluting the interests of existing investors.

However there have been growing signs that creditor banks to the company would not modify their plan, threatening Eurotunnel with a rapid slide into bankruptcy proceedings which could leave the shares worthless.

Eurotunnel must still persuade owners of 25 per cent of its outstanding 920m shares – the percentage necessary for a quorum – to attend next week's EGM in Paris. The restructuring plan must also be unanimously approved by Eurotunnel's 174 creditor banks.

Adacte, a radical investor group which claims to represent investors owning at least 10m shares, remains opposed to the plan, but the more moderate Association of Eurotunnel Shareholders, with a further 10m or more, shows increasing signs of voting in favour. It is due to decide tomorrow.

Templeton and Sumitomo agree advice link-up

By Gwen Robinson in Tokyo

Sumitomo Life Insurance, Japan's third-largest life insurer, and the Franklin/Templeton Group, one of the largest US fund managers, have agreed to co-operate on international equity investment.

The move highlights the growing pressure on Japan's life insurers to provide higher investment returns amid intensifying competition in the country's lucrative fund management market. It also reflects rising interest among foreign fund managers in securing a foothold in Japan ahead of the country's "big bang" financial deregulation.

Initially Templeton's arrangement with Sumitomo will be limited to providing investment advice to the Japanese insurer on equity investments outside Japan.

The tie-up follows last month's alliance between Nippon Life, the world's largest life insurer, and Putnam Investments, one of the largest US fund managers, to manage Japanese pension funds.

It is part of a trend for US fund managers which, enjoying high profits from retail mutual funds and corporate pension funds in their own market, are tending to expand internationally through joint ventures rather than organic growth.

Templeton, a subsidiary of San Francisco-based Franklin Resources, is the fourth-biggest fund manager in the US, with more than $200bn under management, and operates global emerging markets funds as well as giving investment advice.

Under the agreement, Templeton will provide Sumitomo with information on regional stock markets and recommend stocks for Sumitomo's equity investments. Sumitomo will purchase an undisclosed amount of shares in the Templeton Global Strategy Funds, based in Luxembourg.

Sumitomo has total assets of about Y23,000bn ($200bn)and a sales force of 51,000. In the last year it has suffered cancellations of contracts by public and private pension funds as they move to other fund management groups in search of better returns.

The arrangement with Templeton is likely to lead to other forms of co-operation, said Mr Mark Mobius, president of Templeton Emerging Markets and executive vice-president of Templeton Worldwide.

France Telecom incurs loss under US accounting

By David Owen in Paris

France Telecom, the state-owned operator that may be partly privatised this year, incurred a net loss of about FFr33.8bn ($5.82bn) in 1996 under US accounting principles.

The figure outstrips the biggest loss reported by a French company under French accounting rules – the FFr25.6bn loss in 1995 by Alcatel Alsthom, the telecommunications and engineering group.

France Telecom's net loss compares with a FFr2.1bn profit – down from FFr9.2bn in 1995 – announced by the group in March under French accounting standards.

The discrepancy is explained by the difference in the treatment of a once-and-for-all FFr37.5bn payment to the state in return for the transfer of pension liabilities.

This did not appear in the profit and loss statement for French purposes. Under US accounting principles, the payment is recorded as a "withdrawal expense".

A US filing has been made in line with plans for shares to be traded in New York and Paris. Shares were expected to start trading on both stock markets on June 9. However, the partial privatisation was put on ice after the Socialist party's unexpected victory in the general election.

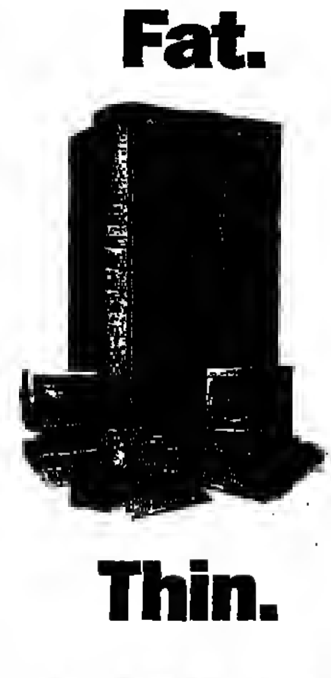
The government has yet to announce whether the partial privatisation will go ahead, but some ministers expect it to proceed this autumn, before next year's liberalisation of Europe's telecoms markets.

These ministers expect to press ahead with the sale of a minority interest in the company, in what could be France's largest privatisation, in September or October. The previous centre-right government was aiming to raise between FFr30bn and FFr50bn from the sale.

The results declared by the group under French accounting principles were affected by one-off items. Mr Michel Bon, the chairman, said the 77 per cent decline in net profits reflected the "very profound transformation" of the company's accounts. The 1996 net profit resembled "neither our past, nor our future", he said.

MORSE

Fat.



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NEC puts $285m into Packard-Bell

By Michiyo Nakamoto in Tokyo

NEC, the Japanese electronics group, is investing a further $285m in Packard-Bell NEC, bringing its total investment in the US computer company to more than $1bn.

NEC, which took a 19.9 per cent stake in Packard-Bell NEC in 1995, will acquire additional non-voting preferred shares, keeping its ordinary equity stake in the US company more or less unchanged.

This is the third additional investment by NEC in the US group. The Japanese company said that the additional money would support Packard-Bell NEC's establishment of direct sales operations aimed at corporate customers. Packard-Bell NEC is aiming to strengthen its corporate business through direct sales rather than through distributors.

In the longer term, the company, which depends on the home-user market for 80 per cent of sales, hopes to divide its revenues evenly between home and corporate sales, NEC said.

Analysts viewed the additional investment as a sign that things were not going according to plan.

NEC made its initial investment with the intention of gaining a sales network in the US personal computer market, and to create synergies and economies of scale in procurement and manufacturing.

Last year, NEC merged its overseas PC businesses, excluding that in China, with those of Packard-Bell, which itself has merged with Zenith Data Systems, the PC arm of Bull, the French computer company. Bull, of which NEC owns 17 per cent, also holds a 19.84 per cent stake in Packard-Bell NEC.

Packard-Bell NEC sells PCs under the Packard Bell brand, which has strength in selling computers for the home; the Zenith brand, which is highly regarded among public organisations; and the NEC brand, which has been successful in the notebook market.

Nevertheless, judging from the additional investment, "it looks like things have not gone as planned," said Mr Naoki Sato, analyst at Deutsche Morgan Grenfell in Tokyo.

While Packard-Bell NEC has a dominant share of the US home PC market, it has lagged behind competitors such as Compaq and Dell in the growing corporate market. In order to keep up with growth in the US market, it must strengthen its corporate sales.

If Packard-Bell NEC had been profitable, it would have entered direct corporate sales earlier, Mr Sato believes.

Although NEC would not disclose the financial performance of Packard-Bell NEC, the company is believed to have accumulated large losses.

Given the highly competitive state of the US PC market, "the chances are that the red ink will persist," one analyst said.

Caution, corruption and intervention

Ex-head of ING Barings in Shanghai outlines problems he faced

Richard Graham, the departing head of ING Barings in Shanghai, picks up a pen and scribbles out a sobering forecast of corporate finance work in China: "Equity capital markets – up. Project finance will be good. Debt capital markets – not started. M&A – ditto. Advisory – a little, but not very profitable. Securitisation – could be great, but *when?*"

The note sets out the headaches that Mr Graham leaves to his successor, as well as other bankers in Shanghai, and ends the first chapter of the foreign investment bank's story in modern China.

Mr Graham opened the Barings office in Shanghai in 1993, one of the first international investment banks to set up in China since 1949. He has seen the business through the turbulence of China's early financial sector reforms, as well as the Leeson affair and the ING acquisition.

A former British diplomat, Mr Graham was in the the first wave of investment bankers pursuing business from inside mainland China. He has emerged as one of Shanghai's most prominent foreign businessmen and an outspoken critic of China's foot-dragging financial liberalisation.

Today, ING Barings, which concentrates on corporate finance and share broking and trading in China, makes most of its money from equity issues and has underwriting licences for the foreign currency stock markets in Shanghai and Shenzhen. Between 1994 and 1996, ING Barings acted as international co-ordinator or joint co-ordinator for companies such as Shanghai Yaohua Pilkington, Shanghai No. 2 Textile Machinery and Little Swan.

The logic that drove Barings to open in Shanghai – "China will need large amounts of capital, more than it can source domestically" – still underpins Mr Graham's faith in the long-term future.

"The bulk of our future revenue will come from the initial public offerings of red chips [mainland Chinese businesses listing in Hong Kong]. They may stutter for a while after Hong Kong's return. But these Chinese companies are all lining up, desperate for capital."

Nevertheless, Mr Graham is frustrated by China's doggedly cautious banking regulators. The authorities "instinctively believe that anything new is not going to be as easy as it appears ... Any country that spends four years debating a securities law without issuing a draft is suffering a major bureaucratic problem."

He lists innovations stalled or axed by Beijing: the bond futures market, warrants, indexed futures, foreign enterprise listings in Shanghai. "And what about corporate bonds?" he asks. "The big missing opportunity for foreign financial institutions is the debt capital markets. There is nothing but sovereign issues."

The government's worry over corporate debt is that it will be landed with unforeseen liabilities amassed by loss-making state-owned enterprises. But the liberalisation of the debt market, Mr Graham suggests, is the "next big step" for foreign corporate financiers, and he notes that US groups are already lining up to secure Yankee bond business.

Government intervention is another bugbear. He recounts an experience in 1994, when Barings won the lead underwriting contract for a Chinese state company listing in Hong Kong. Out of the blue, the regulators telephoned to say that too few underwriting contracts had been given recently to Japanese houses, and so the deal was being reassigned. Barings was given a smaller contract instead. "That sort of thing is unimaginable in other developing Asian markets," Mr Graham says.

Corruption, too, is a growing concern. Mr Graham finds it is increasingly common for ING Barings and others to be approached by people in quasi-offical positions seeking a consultancy fee to help the bank win a particular mandate.

But relationships also have their benefits in China, as Barings discovered in 1995 during the Nick Leeson fiasco, "when the years of relationship and liaison work really proved its worth". While other Barings offices in Asia struggled to win back licences revoked after the bank went into administration, China did not suspend any Barings operations. After the ING acquisition, the authorities remained cool for six months, but in the last 18 months the business has more than recovered.

Mr Graham will return to London to work at Baring Asset Management, with responsibility, among other things, for the bank's China funds. He believes fund management is an area where China would do well to exploit international expertise, because without institutional investors "China's markets will continue to be volatile."

Ultimately, China retains the characteristics of a planned economy. A real transition to a free market would require significant reform of the shareholding structure – replacing the many different legal categories of share, denominated in different currencies with different voting rights, with "one share with equal rights in one currency".

Richard Graham: authorities 'instinctively believe that anything new is not going to be as easy as it appears'

Ownership reform will give companies freedom to issue equity and debt, opening possibilities for corporate financiers. But, he concludes, it will be 10 to 15 years before Chinese companies are really "taking their own decisions. And only then will they deserve serious institutional investment."

James Harding

ASIA-PACIFIC NEWS DIGEST

Chiyoda to get emergency loans

Chiyoda Mutual, one of Japan's medium-sized life assurance companies, is to receive an emergency injection of capital from two affiliated Japanese banks. The move is likely to fuel speculation about the financial health of the company, which is perceived as one of Japan's weaker life assurance groups.

Asahi Bank, which is part of the same *keiretsu* corporate grouping as Chiyoda Mutual, said it had agreed to provide Y20bn ($175m) in loans to the company to strengthen its capital base. Meanwhile, Japanese press reports claimed that Tokai Bank, another affiliate, had provided a Y20bn loan.

Some analysts calculate that Chiyoda is between Y80bn and Y550bn short of financial solvency, depending on how its liabilities are valued. One analyst said: "We have the deepest reserves about Chiyoda's financial solvency. Giving extra loans to the company seems like a peculiar step." Chiyoda's group assets fell 9.7 per cent in 1996 because of withdrawals by corporate clients.

Earlier this year, Nissan Mutual became the first Japanese life assurer to fail since the second world war. The life assurance sector is due to publish its full-year results next month and speculation is mounting that other companies may be at risk.

Standard and Poor's, the US credit rating agency, recently cited Chiyoda Mutual as one of five Japanese companies below the level considered adequately secure for policyholders. The agency awarded Chiyoda Mutual a B rating – well below the BBB level it deems acceptable.

Gillian Tett, Tokyo

MBF plans foreign expansion

MBF, the Malaysian group, plans to become the country's "financial supermarket" abroad, with an aggressive investment strategy over the next 20 years, particularly in the Asean region. Mr Loy Hean Hong, chief executive, said the group would look initially to buy commercial banks in Thailand and Burma. It was also seeking to take over Philippines Savings Bank through a subscription to new common shares in the bank. "We also plan to establish a stockbroking firm in Indonesia, once the approval is granted by the Indonesian finance ministry," Mr Loy said.

The company plans to become the leading credit-card issuer in the region, with at least 10m to 20m cards in the next five years, he added. MBF forecast a 30 per cent increase in profit this year, from M$500m (US$198m) previously.

Asif Huda, Kuala Lumpur

Diversified Resources triples

Diversified Resources, a holding company within DRB-Hicom, the Malaysian transport and industrial group, reported a tripling of group pre-tax profit to M$304.71m (US$121m) for the year to March 31 on turnover up 138 per cent at M$8.12bn. Proton, DRB-Hicom's automotive unit, reported pre-tax profits for the year of M$3.59m, compared with a loss of M$4.72m, while turnover rose 25 per cent to M$30.31m.

Asif Huda

Nissan, SKF in bearings deal

Nissan Motor, of Japan, is to procure wheel bearings for its models made in Japan from SKF, the Swedish bearings manufacturer. The annual value of the purchase will be Y600m ($5.2m). This will be the first time SKF bearings have been used on Nissan vehicles produced in Japan.

AP-DJ, Tokyo

Yen hits 'dual currency' bonds

By Gillian Tett in Tokyo

The recent surge in the yen against the dollar has derailed the market in "dual currency" bonds in Japan in the past month. None of these instruments was issued in Japan in June, the Japan Bond Underwriters association said.

This is in sharp contrast to the pattern seen until earlier this year, when sales of such instruments expanded rapidly.

The trend illustrates the impact of the yen's recent surge on Japan's financial markets. After falling to Y127 against the dollar at the start of May, the currency was trading at Y114 in Tokyo yesterday.

Dual currency bonds pay interest in one currency, such as Australian or US dollars, but redeem in another.

They became popular with Japanese investors in 1996 and the early months of this year, because they appeared to protect against further falls in the yen. About Y2,066.6bn ($18bn) of dual currency bonds were issued between April and December 1996. However, the rise in the yen makes them less attractive to their holders, and investors abandoned the market in May.

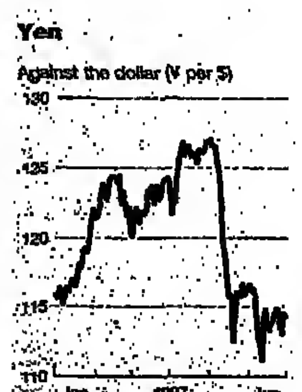
According to the Bank for International Settlements, issuance of yen-denominated bonds in the eurobond markets has dropped 40 per cent this year owing to the low rates of interest attached to Japanese bonds. With coupons on five-year Japanese government bonds at less than 2 per cent, investor interest has plummeted. The coupon rate on US Treasury bonds is more than 6 per cent, and issuance in the US dollar has risen by more than 10 per cent this year to record levels.

Confidence has been particularly dented by losses on one form of dual currency bond – "knock-out" bonds – which were heavily sold in Japan earlier this year.

These were structured in a manner which triggered losses for the holders of the bond if the yen appreciated by more than 10 per cent.

As the dual currency market collapsed last month, issuers turned instead to "straight" bonds, which are denominated in one currency.

Issues of these reached Y801bn in June, one of the highest levels on record.



News Ltd finalises ANM disposal

By Bruce Jacques in Sydney and Terry Hall in Wellington

News Ltd, the Australian subsidiary of News Corporation, the international media group, has finalised the sale of its 50 per cent interest in Australian Newsprint Mills to Fletcher Challenge Paper, the New Zealand paper company.

The deal, which was approved last week by Australian authorities, will give Fletcher 100 per cent control of ANM, the only producer of newsprint and related products in Australia. It will make the New Zealand group the leading supplier of newsprint and related papers in Australasia.

Mr Lachlan Murdoch, managing director of News, said yesterday the 50 per cent stake had been sold for A$293.5m (US$219m), comprising an initial payment of A$263.5m and a A$30m note payable over the next six years.

Mr Murdoch said the initial payment would be funded half by cash and half through a capital note issued to News Ltd.

Mr John Hood, chief executive of Fletcher Challenge, said the deal meant his company would supply about 60 per cent of Australia's newsprint and special paper needs from two mills. A substantial proportion of Australia's newsprint imports are also supplied from Fletcher facilities outside the country.

Mr Hood said Fletcher had long-term contracts with Australian newspaper publishers, including News Ltd, which governed formulas for pricing and volume. Fletcher's half share of ANM was valued in its accounts in 1996 at just over A$300m.

He added that ANM had been a solid performer in recent years, in what had been a difficult era for paper manufacturers.

ANM supplies 60 per cent of Australia's annual newsprint needs from its Tasmanian and New South Wales plants and operates a waste paper recycling factory.

Negotiations on the deal have been protracted, leading to reports that News Ltd was seeking a much higher price than Fletcher Challenge Paper was prepared to pay.

This announcement appears as a matter of record only

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Tranche 2 US$ 110,000,000

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June 1997

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Hydro-Québec

Floating Rate Notes, Series FY, Due July 2002

Interest Period	27th January 1997 28th July 1997
Interest Amount per U.S. $10,000 Note due 28th July 1997	U.S. $291.43

Credit Suisse First Boston (Europe) Ltd.
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U.S. $120,000,000

Subordinated Floating Rate Depositary Receipts due 2000

issued by Bankers Trustee Company Limited evidencing entitlement to payments of principal and interest on deposits made on 27th June, 1990 with the Frankfurt Branch of

Banco di Sicilia S.p.A.
(Established in the Republic of Italy as a limited liability Joint Stock Company)

BdS
BANCO di SICILIA

For the six month period 27th June, 1997 to 29th December, 1997 the Receipts will carry an interest rate of 6.50391% per annum with an interest amount of U.S. $3,342.29 per U.S. $100,000 Receipt. The relevant Interest Payment Date will be 29th December, 1997.

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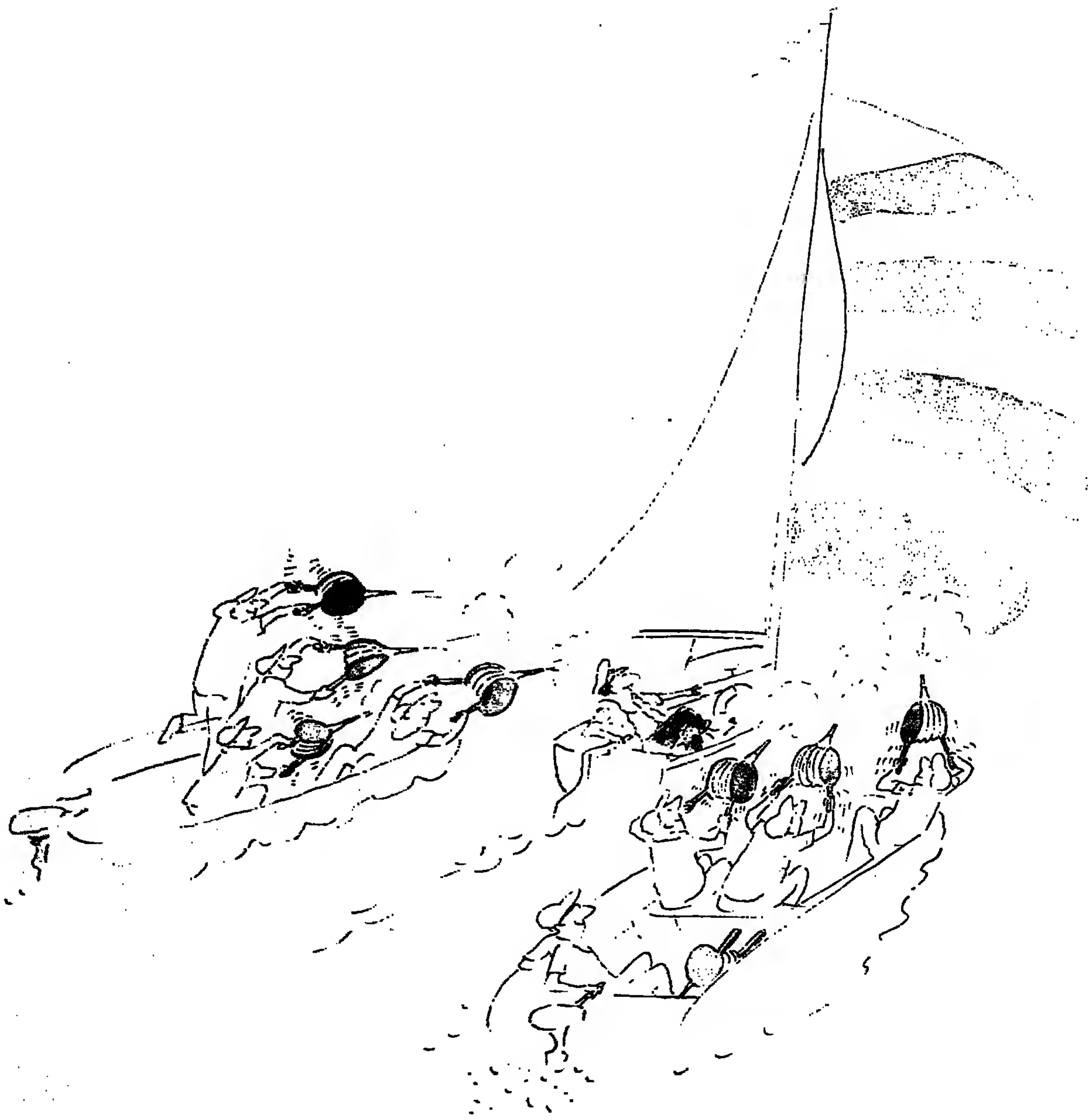

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CREDIT SUISSE PRIVATE BANKING

Whatever makes you happy.

NationsBank buys Montgomery

By John Authers in New York

NationsBank, the acquisitive commercial bank based in North Carolina, yesterday said it would pay $1.2bn for Montgomery Securities, the San Francisco investment bank, joining the trend for large retail banks to buy smaller securities firms.

This was the fourth such deal since the Federal Reserve, this year allowed commercial banks to derive up to 25 per cent of their earnings from securities underwriting.

It provoked a mixed reaction on Wall Street. NationsBank's share price fell $7/16 to $64 11/16 by midday, but fared better than the banking sector as a whole.

Some analysts suggested NationsBank had paid too much, and questioned the logic of the deal. It had been expected to buy a smaller bank than Montgomery.

Ms Nancy Bush, analyst at Brown Brothers Harriman, downgraded her earnings estimates for NationsBank. The acquisition was "absolutely ill-advised and will add an additional element of risk and volatility to the NationsBank earnings stream," she said. Investment banks were at a "pricing top", she added.

NationsBank said it was acquiring Montgomery, which is best known for its expertise with West Coast high-technology companies, so that it could offer initial public offerings to its predominantly small and medium-sized clients.

According to Mr Ed Brown, president of NationsBank Global Finance: "This enhances our ability to provide one-stop financial services to our clients, specifically equity underwriting."

He defended the bank against charges that it had acted too quickly, saying equity underwriting was a "critical missing link for NationsBank". Trying to build the business organically would have been "much too time-consuming" and would perhaps have "left us behind". He added: "There are too many opportunities coming down the road to wait."

Montgomery keeps a heavy degree of autonomy under the deal, retaining its name and becoming a division of NationsBanc Capital Markets, a subsidiary set up to take advantage of the Federal Reserve's rules on revenues from securities.

While 70 per cent of the purchase price is to be paid in cash, the remainder is in NationsBank stock, at a fixed price of $67¼ a share, which will be held in an escrow account and paid out over three years.

● American Century, a privately held mutual fund manager, confirmed yesterday it was discussing the sale of a minority stake to J. P. Morgan, Reuter reports from New York. A link with American Century would raise J. P. Morgan's presence in the US retail market.

GM chief defends global strategy

Problems at Adam Opel 'completely unrelated' to group's expansion drive

Louis Hughes, the most senior executive in the international operations of General Motors, the world's biggest carmaker, denied that vehicles made by GM's Opel and Vauxhall subsidiaries in Europe would suffer from attempts to develop more "global" products.

However, in an interview, Mr Hughes, who is responsible for all GM's vehicle activities outside the US, admitted the company should have done more to convince demoralised European executives of its commitment to German and UK automotive technology.

"We have to take more time to educate our executive group and all our employees that there has been a dramatic change in the size of the world market and the pace at which it is opening," he said.

GM has faced unprecedented criticism in the German press recently about deteriorating quality at Opel, and fears among top product development staff that US engineers have gained too much say in developing future European products.

"Are we satisfied with where we are [on quality]? No. We won't be satisfied until we establish ourselves as leaders in the industry," he said.

Mr Hughes admitted internal criteria confirmed Opel's products had declined in quality in the early 1990s. However, he said more recent research showed the situation had been largely rectified. Warranty claims for new cars within their first two months of sale had fallen by 35 per cent in the past 18 months, he said.

Mr Hughes attributed the quality difficulties to decisions on component sourcing and manufacturing processes taken when GM's current European models were being developed in the late 1980s.

The problems were "completely unrelated" to the group's globalisation drive, which had only begun in earnest in the past 18 months, he said.

Mr Hughes, a former chairman of Adam Opel, said GM was facing a "one-off opportunity" to expand into new markets as trading and political barriers came down. However, other big carmakers were expanding as aggressively, meaning "that vacuum is being filled".

He stressed that future Opels and Vauxhalls, which are identical apart from their badges, would retain their European characteristics, even when developed by transatlantic project teams comprising US and European engineers developing future "global" cars.

'Future Opels and Vauxhalls will retain their European characteristics'

Some European managers have claimed GM risks diluting the characteristics of its European products. The group, like other big car companies, has tried to cut the number of "platforms" – basic engineering structures – on which its future products are built to generate greater economies of scale.

Mr Hughes said the use of multinational product development teams, comprising principally US and European engineers, did not mean future Opels or Vauxhalls would become bland.

Europe, and Germany in particular, was GM's most important market outside the US, he said.

"We in international operations are the masters of our own destiny. We are not going to do anything to compromise our ability to compete effectively in these markets."

Haig Simonian

HFS in talks on European expansion

By Scheherazade Daneshkhu, Leisure Industries Correspondent

HFS, the US franchising group, is in talks with European hotel companies to expand its international hotel operations.

The group, which announced last month it would spin off its Avis Rent A Car business through a $333m public offering, is also seeking to expand in east Asia.

The Maryland-based company, founded in 1990, is the world's largest hotel operator with more than 500,000 rooms. However, it is also one of the least geographically diversified: only 6 per cent of its hotels, which include Howard Johnson, Days Inn and Ramada, are outside the US.

HFS's push into Europe and east Asia reflects growing competition between hotel chains for new markets and global reach, which has led to consolidation in the industry.

Hilton Hotels is in the middle of a $6.5bn hostile bid battle for its rival ITT Sheraton, while in February, Marriott International doubled its presence outside the US by paying $1bn for the Renaissance group.

"Globalisation is no longer a buzzword – it's a reality," said Mr Eric Pfeffer, president of HFS Global Services. "It's being driven by the customer, because they want hotels in other countries."

Mr Pfeffer said the company did not intend to invest capital in its expansion programme but would seek franchisees who, in exchange for franchise fees, would become part of an international brand and expect to benefit from HFS's marketing muscle.

In May, HFS merged with CUC International, the direct marketing organisation, in a $11bn stock swap with the aim of using the companies' two networks to cross-sell products.

HFS expects to increase the number of its hotels outside the US from 300 to 1,000 within three years, of which 60 per cent are expected to be in Europe. It is in talks with hotel groups in the UK, Ireland, Germany, France and some of the former Eastern bloc countries, including Hungary.

Hotel franchising is less widespread in Europe than in the US, but has been growing in recent years. Choice Hotels, the second-largest US hotel franchising group, last year granted to Friendly Hotels the master franchise in the UK and Ireland to develop hotels under two of Choice's main brands, Comfort and Quality.

HFS has also targeted east Asia, where it already has a number of franchisees. But growth is expected to be slower here, since the group's discussions are with developers of new hotels.

The push into foreign markets is also a reflection of the maturity of the US market. "We continue to grow at a decent pace in the US, but we won't see the double-digit growth of previous years," Mr Pfeffer said.

Campbell Soup chief executive to quit

By Richard Tomkins in New York

Campbell Soup, the US foods group, yesterday announced that Mr David Johnson would step down as chief executive next month, disappointing shareholders who had hoped he would stay beyond the expiry of his contract.

The company said Mr Dale Morrison, president of the international and specialty foods division, would take over as chief executive on July 15. But it said Mr Johnson, 64, would remain chairman for another year, easing the transition.

Although the moves had been widely expected, Campbell Soup shares fell $1 1/16 to $47 11/16 in early trading.

Mr Johnson joined Campbell Soup in 1990 and embarked on a shake-up of the ailing company. He shed low-margin businesses, cut costs, and in 1994, engineered the purchase of Pace Foods, the world's largest salsa and Mexican-style hot sauce company, for $1.04bn.

The company's profits surged, averaging a compound annual rate of 17 per cent in its fiscal year to July 1996. Late last year, Campbell Soup announced another package of measures aimed at taking it into the ranks of the world's top-performing consumer goods companies, such as Coca-Cola and Gillette.

Shareholders were aware that Mr Johnson's contract expired in July 1997, so there had long been speculation about whether he would leave and who would replace him. The two most likely successors were seen as Mr Morrison and Mr Robert Bernstock, president of the US grocery division.

Yesterday Campbell Soup said that Mr Bernstock and Mr Basil Anderson, chief financial officer, had been promoted from senior vice-president to executive vice-president.

Mr Michael Branca, analyst at Lehman Brothers, said: "David Johnson was nearing the end of his contract and it was clear that a successor would be named shortly. Morrison has tremendous expertise and experience, which made him a very likely candidate."

Mr John McMillin, of Prudential Securities, said: "It's the end of an era. Johnson has been a real money-maker for Campbell Soup's shareholders over the past seven years and I think some people were hoping he wouldn't leave.

"Now it's a question of whether Morrison can make even more money. He's going to have to do it the old-fashioned way, selling more volumes instead of cutting costs and raising selling prices."

AMERICAS NEWS DIGEST

US food service groups to merge

The highly fragmented US food service industry took a step towards consolidation yesterday when JP Foodservice and Rykoff-Sexton, two of the sector's larger businesses, announced plans for a merger valuing Rykoff-Sexton at $685m.

The combined company will be called JP Foodservice but will trade as US Foodservice, a Rykoff-Sexton name. With annual sales of $5.2bn, it will be the biggest food service company in the US after Sysco, the industry leader. But with so many other companies operating in the sector, its market share will be only 4 per cent.

The food service industry supplies food to restaurants, hotels, office cafeterias and other places where people eat away from home. The sector has been growing quickly in the US because of an increasing tendency among Americans to eat out.

JP Foodservice will issue 0.84 of its own shares for each of Rykoff-Sexton's shares. It said the deal would enable the combined company to reach 85 per cent of the US population and provide opportunities for cost-savings estimated at $17.2m in the first year, $23m in the second year and $29.4m in the third year.

JP Foodservice said the deal would add to earnings per share from the start. However, its share price fell $1⅝, or 6 per cent, to $28¼ in early trading, while Rykoff-Sexton's shot up $3⅝, or 18 per cent, to $23¼.

Richard Tomkins, New York

CanWest in NZ radio buy

CanWest Global, the Winnipeg-based broadcaster, has agreed to pay NZ$33m (US$22.4m) cash for More FM, one of New Zealand's biggest radio networks.

CanWest already owns 68 per cent of TV3 and TV4, two New Zealand television networks. It also has a stake in Australia's Network Ten.

The Canadian group said: "We have long ago concluded that ownership of radio in our television markets is the next logical progression for CanWest . . . as opportunities become available at sensible prices."

More FM owns seven radio stations in Auckland, Wellington, Christchurch and Dunedin.

Bernard Simon, Toronto

Case acquires UK business

Case Corporation, the US manufacturer of agricultural and construction equipment, yesterday announced it was buying Gem Sprayers, the leading supplier of crop-sprayers in the UK, as part of its European growth strategy. Terms of the deal were not disclosed, but it is Case's third European acquisition and eighth purchase worldwide in 18 months. Gem, a private company based in Lincoln, England, had sales of $12m last year.

Wisconsin-based Case, which had sales of $5.4bn last year, is one of the world's four biggest tractor makers. Mr Leopold Plattner, president of Case Europe, said: "This is an important next step in Case's strategy to become a supplier of a full range of agricultural equipment to European customers."

Alison Maitland

Philip Morris Mexico move

Philip Morris, the US group which is the world's largest manufacturer of cigarettes, is to increase its stake in Cigatam, the Mexican cigarette concern, from 29 per cent to 50 per cent. Cigatam controls half of Mexico's tobacco market.

The transaction, which is dependent on the approval of Mexico's competition commission, is worth about $400m.

Cigatam's licence to sell Philip Morris brands will now be extended from 2000 until 2020. Last year, Cigatam sales totalled 5.1bn pesos ($641m), although sales of smuggled cigarettes from the US hurt revenues. Cigatam is run and part-owned by Grupo Carso, the conglomerate headed by Mr Carlos Slim, the Mexican billionaire.

Philip Morris's move follows agreement of the $368.5bn tobacco settlement in the US, which is likely to spur cigarette companies to step up their activities in Asia and Latin America.

The acquisition also marks a vote of confidence by a big US company in Mexico's depressed domestic sector. Another such signal came last week from Anheuser-Busch, the world's biggest brewer, which exercised a final option to increase its stake in Mexican brewer Grupo Modelo by 13.25 per cent to 50.2 per cent in a transaction worth $550m.

Daniel Dombey, Mexico City

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Dated: 1st July, 1997 Miura Co., Ltd.

National Bank seeks to shed museum image

The Greek public sector group has embarked on a modernisation scheme, writes Kerin Hope

Its elegant marble buildings and historic collection of Greek paintings are expected to remain cherished assets, but National Bank wants to shed its image as the museum of Greek banking.

The country's biggest banking group is restructuring as part of the Socialist government's effort to modernise Greece's large and inefficient public sector. At the helm is Mr Theodoros Karatzas, a financial lawyer who successfully launched deregulation of Greek banking a decade ago.

"National's size gives it a strong competitive advantage in the domestic market. It should also be a regional bank for the Balkans," he says. "But it wasn't focusing on core activities and some problem areas were being ignored. The balance sheet, for example, was in urgent need of attention."

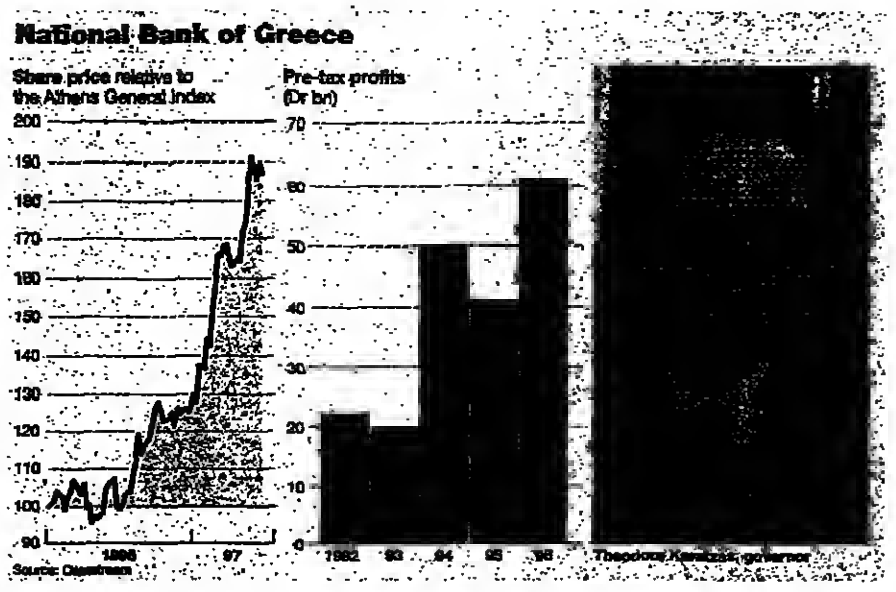
With assets of more than Dr8,000bn ($29bn) and almost 500 branches in mainland Greece and the islands, National dominates the market. But its share of retail banking has slipped from 40 to 33 per cent in the past five years. Almost 20 per cent of the loan portfolio consisted of bad debt, mostly lending to failing companies under pressure from politicians anxious to preserve jobs.

A report last November by Carnegie Emerging Markets, the UK brokerage, said: "National has significant problems as a result of effectively acting as an instrument of the government's social policy. Its profitability is poor, it is under-capitalised and arguably under-provided."

His reputation as a reformer has helped Mr Karatzas to attract a team of senior executives who would normally scorn a job in Greece's public sector. They include a former senior central bank official and Greek bankers with commercial and investment banking experience in the US.

National signalled its change of outlook by passing the dividend on 1996 earnings and using the bank's entire pre-tax profits of Dr61.4bn to increase provisions.

The move followed the write-off of Dr118bn of non-performing debt and equity participations in bankrupt companies, and "should enable us to cleanse the balance sheet completely by the end of this year", Mr Karatzas says.



The bank has broken with Greek banking tradition by appointing an international accounting firm, Deloitte and Touche, as auditors. First-quarter pre-tax profits soared 80 per cent to Dr19.7bn following a decision to liquidate some of the bank's large portfolio of fixed assets.

National has strengthened its capital base by issuing a $200m floating-rate subordinated eurobond, which counts as Tier2 capital. Most of the issue was placed with institutional investors abroad.

A Dr100bn rights issue on the Athens stock exchange is planned for November, of which at least 25 per cent would be placed abroad. This would bring National's capital adequacy ratio into line with international standards for the first time.

The overhaul has pleased individual investors and domestic institutions, which hold about 52 per cent of National's shares. Since last December the share price has doubled to Dr33,800.

Share prices of National's banking and financial subsidiaries received a boost from the transformation of ETEVA, a development bank, into a fully-fledged investment bank. This year National Housing and National Mortgage, both specialised mortgage banks, are to merge into a single unit. Two insurance subsidiaries are also being merged.

An attempt is under way to revive National's overseas subsidiaries and branch operations. These were set up to serve expatriate Greeks in the US, Canada, France and South Africa, and to channel depositors' funds in foreign exchange back to Greece, but found their role shrinking as immigrants became more integrated with their local communities.

The overseas subsidiaries have begun to specialise in treasury and dealing room operations, including financial products in drachmas for the US market. National's overseas operations raised pre-tax profits 42 per cent last year to Dr10.5bn, led by Atlantic Bank of New York and a specialised ship financing operation at the London branch.

Expansion, however, will focus on the Balkans. National has set up branches in Bulgaria, Romania and Albania to support an increasing volume of Greek trade and investment, and plans to open branches in Istanbul and Skopje, the Macedonian capital, in spite of Greece's political disputes with both countries.

The Tirana branch opened a few days before the collapse of a string of pyramid finance schemes triggered financial and political chaos in Albania, but has continued to operate with a reduced staff.

Mr Karatzas says he is not worried by political turmoil: "There are bound to be growing pains in new markets. If we want to become a significant regional player we must have a presence in the difficult transition period."

On the politically sensitive question of staff cuts, however, he sounds more cautious. National's 15,000 employees include many political appointees to junior posts, and operating costs are among the highest in Greek banking.

Mr Karatzas says National will try to contain increases in operating costs, which were held last year at 11.5 per cent against 17.6 per cent in 1995 – the lowest increase of any Greek bank.

Winterthur to form new risk unit

By Christopher Adams, Insurance Correspondent

Winterthur, the Swiss-based insurance group, is to restructure its international operations and create a separate division to offer multinational clients alternative ways to place risk.

Many big insurers are having to meet increasingly sophisticated customer needs as risks get bigger but prices fall.

The pace of consolidation is accelerating and several insurers have also begun exploring ways to place risk on capital markets.

Winterthur International, which earned SFr2.1bn ($1.44bn) in premium income last year, said yesterday it would base its business in the UK, from where it would service all of Europe except Germany, which would have its own branch office. This would cut costs and boost the equity of Winterthur International in the UK from SFr90m to SFr290m.

The division offering others ways of placing risk will work with Reinsurance Finance Consultants, a venture between CS Holding, Swiss Re and Winterthur.

EUROPEAN NEWS DIGEST

Bulgarian buy for Union Minière

Union Minière, the Belgian metals group, has agreed to acquire a 56 per cent stake in Bulgaria's largest corporate smelter for $80m, in the first deal made under the new pro-market government's accelerated privatisation programme for large companies. A privatisation agency official said Union Minière would invest a further $220m in raising capacity and building a new refinery at MDK, based at Pirdop, east of Sofia. The investment would increase overall production by 35 per cent and would include measures to reduce environmental pollution at the plant site.

MDK produces up to 50,000 tonnes a year of copper, mainly from locally-mined ores. But it uses technology dating from the 1950s and the area around the plant has suffered heavy environmental damage.

Kerin Hope, Athens, and Theodor Troev, Sofia

Prague cuts Nova Hut stake

The Czech state is to cut its stake in Nova Hut, one of the country's two big steelmakers, to less than 50 per cent to allow the company to secure a $250m loan arranged by the International Finance Corporation and a consortium of banks. As a condition of the loan, the state holding company agreed to transfer 18.5 per cent of Nova Hut's shares within three months to Komercni Bank and Credit Suisse First Boston, which will sell them on to private investors when market conditions are more favourable.

The arrangement follows a decision last month to abandon plans for an international offering of the stake because of the Czech Republic's economic problems. The loan will help Nova Hut complete its five-year $650m modernisation plan, which includes building a hot strip rolling mill at its Ostrava plant to produce 1m tonnes of higher value-added flat steel products. An agreement to build the mill was signed by Nova Hut and ICF Kaiser, the US engineering company. It is to be completed by 2000.

Robert Anderson and Vincent Boland, Prague

Blokker to shed Toys R Us

The European Commission has ordered Blokker, the Dutch household and toy retailer, to divest the Dutch operations of Toys R Us, the US toy chain. This is only the eighth time it has blocked a deal. The Commission acted on a request by the Dutch government, as the company's expected turnover was too small to allow the Commission to initiate a review.

Blokker in February agreed to take over six of nine operating stores of Toys R Us which had incurred local losses. Blokker already owns Bart Smit and Intertoys, two of the largest toy store chains, along with the country's largest chain of household shops. The three remaining shops would close. While Blokker's market share would increase only marginally in the short term, the Commission found that Blokker could use the Toys R Us concept to boost its market share sharply. In a compromise, it allowed Blokker and Toys R Us to keep a share of up to 20 per cent until it had ensured survival of the divested stores.

Sander Thoenes, Brussels

NABI to raise $25m

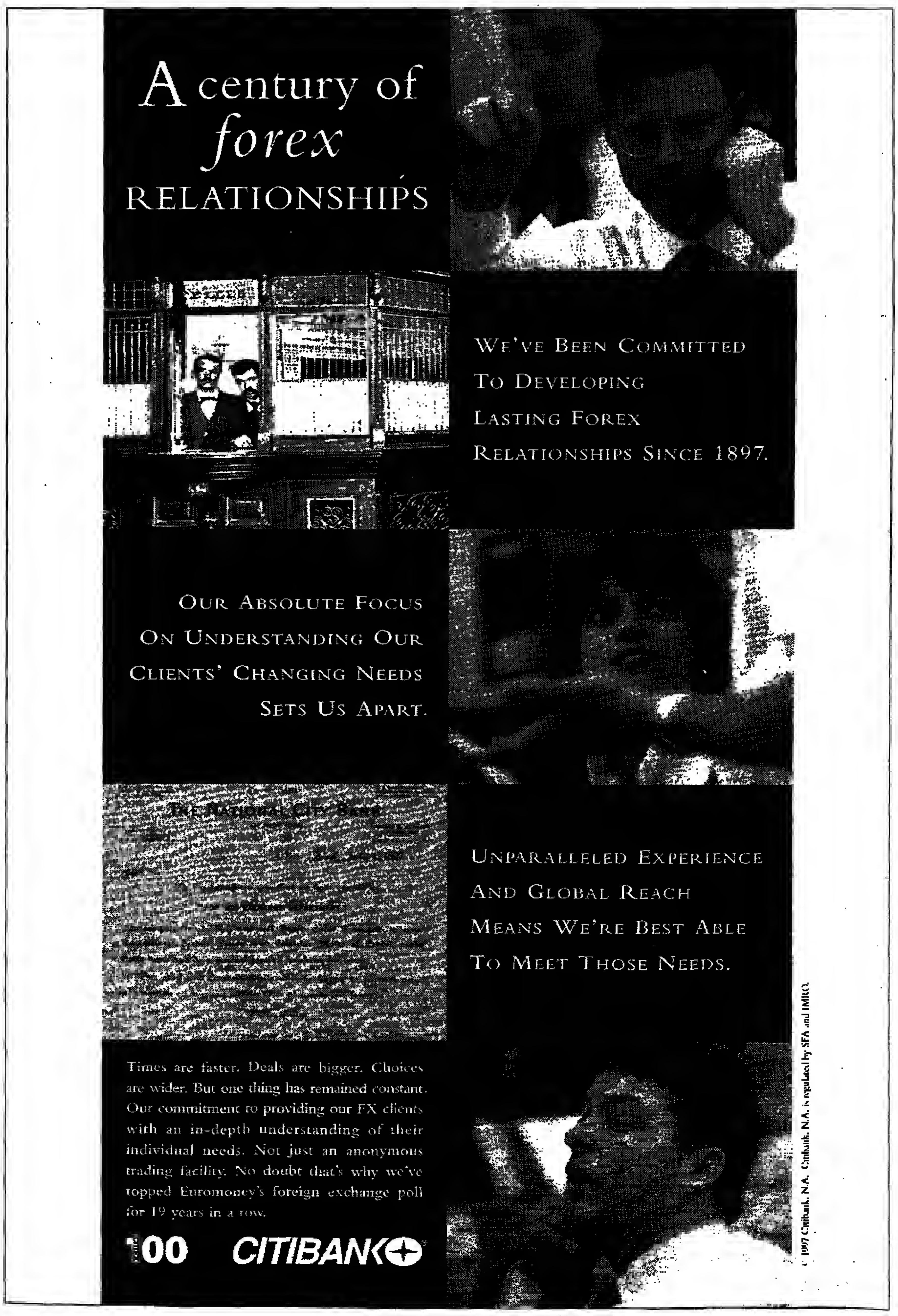
North American Bus Industries (NABI), the Hungary-based manufacturer, has launched an international roadshow for an issue of 1.7m new shares priced at between Ft2,850 and Ft3,280 and set to raise some $25m-$30m. Shares will be available to institutional investors in Hungary and main European centres, and the company will seek a listing on the Budapest Stock Exchange. An additional 65,300 existing shares will be offered to Hungarian institutions. Credit Suisse First Boston is sole manager.

An offshoot of the operations of former bus maker Ikarus, NABI has plants in Budapest and Anniston, Alabama. It manufactures bus shells and chassis in its Budapest plant for shipping to its factory in Alabama, where the vehicles are completed with engines, transmissions and seating. The company had net income of $3.1m on consolidated sales of $77.8m last year, more than double 1995 sales.

NABI is wholly-owned by The First Hungary Fund, a closed-end equity fund registered in Jersey, which recently bought out the 21 per cent stake held by Ikarus as part of a joint venture set up in 1993.

Kester Eddy, Budapest

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com



Nafin Finance Trust II
U.S. $129,880,000
Floating Rate Notes due 1999
For the Interest Period 30th June, 1997 to 30th September, 1997 the Notes will carry a Rate of Interest of 6.3625% per annum. The Coupon Amount per original U.S. $10,000 Note will be U.S. $162.62 payable on 30th September, 1997.
Bankers Trust Company, London Agent Bank

C.A. La Electricidad de Caracas, SAICA-SACA
U.S. $39,836,000
Collateralised Floating Rate Bonds due 2000
July 1, 1997
CHASE

Hungarian TV franchises awarded

By Kevin Done in London and Kester Eddy in Budapest

Hungary yesterday awarded the long-awaited concessions for its first twn natinnai commercial television stations tn consortia lsd by CLT-Ufa, Europe's biggest broadcasting and entertainment group, and Scandinavian Broadcasting System, which is 22.8 per cent owned by Walt Disney.

The result of tbe bard-fought contest fnr the franchises, the most costly commercial TV tender yet staged in east Europe, is a big setback for Central European Media Enterprises (CME), tbe Nasdaq-quoted US pioneer nf private commercial TV in central and east Europe. CME failed in bids for both cbannels.

The Hungarian tender has set a new price level for franchises in east Europe, with the winners baving to bid more than $50m for the 10-year concession and with an upfront payment for the first three years.

Hungary, with a population of 10.2m, is the most lucrative TV advertising market in east Europe on a per-capita basis, with a market wnrth an estimated $188m last year.

Mr György Lovas, spokesman for ORTT, the Hungarian national radin and TV commission, said the bids had been "very close. One important factor in the decision was the future diversity of Hungary's media scene."

He said the decision by the seven-member council of the ORTT was unanimous, apart from one abstention.

The award has fnllowed a period of intense high-level lobbying, however, with all three bidders admitting that the contest had become highly political.

The licences will allow CLT-Ufa and SBS to make big advances in central Europe. Both have lagged well behind CME, which is already established in the Czech Republic, Slovakia, Slovenia, Romania and Ukraine, and is launching in Poland in October.

CLT-Ufa, which has interests in 19 TV stations in seven European countries mostly nperating under the RTL brand, has failed in earlier tenders against CME, most notably in the Czech Republic in the early 1990s.

It established its foothold in the region last December with the launch in Poland of RTL7, a new commercial channel available via cable and satellite.

Nasdaq-quoted SBS owns and operates commercial TV stations broadcasting into Sweden, Denmark, Norway, Belgium and the Netherlands. Its only interest in east Europe is in Slovenia, wbere it is locked in a legal battle with CME over control of Kanal A, a small private station.

Ex-Hugo Boss chief to head Mondi

By Alice Rawsthorn

Mr Peter Littmann, who made his mark in the fasbinn industry by transforming the image and financial fortunes of the Hugo Boss label, has been appointed chairman of Mondi, the German wnmen's wear company.

Mondi, wbich is best-known for the 1980s look of big-shouldered clothes for career women, was taken over four years ago by Investcorp, the Bahrain-based investment banking group behind the revival of the Gucci fashion house. It bad turnover last year of DM150m ($86m).

Mr Nicbolas Bryan, a member of Investcorp's management committee, said he bad been looking for a new Mondi chairman for "well over a year", and had chosen Mr Littmann "to contemporise Mondi's image, just as be did for Hugo Boss".

Under Mr Littmann, Boss became a fashion success story of the mid-1990s. It made its mark in the 1980s with glitzy, sboulder-padded suits, but its image became outdated by the end of the decade.

After bringing in new designers to modernise Boss's fashion collections, Mr Littmann redefined its image by hiring young pbotographers and stylists to work on its advertising campaigns. During his chairmanship, the company's operating profits rose from DM83.6m in 1992 to DM123m ($70.1m) in 1996.

Mr Littmann surprised the fashion industry by announcing his resignatinn from Boss earlier this year. He will start at Mondi immediately.

Mr Bryan said Investcorp was willing to invest beavily in marketing to help Mr Littmann revitalise ths Mondi brand. He said Investcorp's market research revealed a gap for stylish clothes for career women in the "bridge market", which is less expensive than designer labels.

Investcorp, which invests in ailing western brand names on behalf of Gulf-based investors, made a substantial profit from Gucci, now a quoted company.

Its most recent fashion deal was the $112m acquisition of Helly Hansen, a Norwegian sportswear manufacturer.

Peter Littmann: chosen 'to contemporise Mondi's image'

Agnelli silent on next Fiat chief

By Paul Betts in Milan

Italy's biggest corporate succession will remain a mystery – or a "giallo" as Italians say – for another 12 months, if Mr Giovanni Agnelli has his way.

The 76-year-old bonorary chairman and patriarch of Fiat yesterday revealed that he had the solutions to the snccession at tbe top of Italy's largest private enterprise *"in pectore"*, but begged a gaggle of journalists not to ask him for another year.

"I simply won't tell you," he said after the shareholders' meeting of the Agnelli family holding Ifi which, together with the other family holding Ifil, controls about 31 per cent of Fiat.

Since be stepped down as executive chairman of the Turin automotive gronp in 1995, the Ifi meeting has replaced the Fiat annual meeting as the occasion for Mr Agnelli, often described as "Italy's most powerful man", to give the press his state-of-the nation address.

From the moment Mr Agnelli took the back seat as honorary chairman, speculation has risen over wbo would take over from Mr Cesare Romiti, who replaced Mr Agnelli as chairman two years ago. Mr Romiti will retire at the age of 75 in June 1998, Mr Agnelli confirmed yesterday.

It was important for Fiat, Mr Agnelli said, that its "young and capable" managing director, Mr Paolo Cantarella, should be flanked by with a chairman with broad international experience.

Such a description would fit Mr Paolo Fresco, the executive vice-president of General Electric, the US multinational, who joined the Fist board two years ago. Mr Fresco will be 65 next year, the informal retirement sge at GE. Although be has long been tipped as s successor to Mr Romiti, there have been suggestions he is not keen on the job.

The decision will be taken by Mr Agnelli and members of Fiat's syndicate of controlling shareholders which inclnde, aside from tbe Agnelli boldings, Dentscbe Bank, Assicurazioni Generali and Mediobanca.

As for Mr Giovanni Alberto Agnelli, Mr Agnelli's 33-year-old nepbew, wbom be named his heir at Fiat in 1995, he is felt to be too young to take control at this stage. He is also undergoing treatment in the US for an abdominal tumour.

EUROPEAN NEWS DIGEST

Bank Handlowy shares surge 14%

The price of shares in Bank Handlowy yesterday surged by 14 per cent, marking a successful trading debut for Poland largest privatisation to date. The closing price of 37.9 zlotys – which values the bank at $1.1bn – was welcomed by government officials and management, who had feared a political row if the price had risen by more than 30 per cent in initial trading.

Mr Miroslaw Pietrewicz, the treasury minister responsible for the sale, said yesterday it had been "accomplished well". But he admitted there had been worries about the pricing of the stock.

The bank's initial offer to foreign institutions, which were asked to pay 35 zlotys a share, had been oversubscribed 17.4 times. Local demand, where the price was set at 33.3 zlotys, outstripped supply by more than three times. A large rise in the price would have fuelled criticism from the Solidarity opposition that the bank had been undervalued. Solidarity is challenging the present former communist-led government at parliamentary elections in September.

The bank's listing yesterday increases the WSE's capitalisation by 7 per cent to 37.2bn zlotys at a stroke. The value of shares quoted on the WSE is to rise further by about 10 per cent this month with the listing of KGHM Polska Miedz, the copper combine, whose initial public offer opens today. *Christopher Bobinski, Warsaw*

Sulzer Medica optimistic

Sulzer Medica, Europe's leading medical technology company, which is about to make its stock market debut, is expected to post double-digit earnings growth over the next few years as a result of a recovery in its margins and an acceleration in revenue growth. The earnings of Sulzer Medica have been flat for the past three years and operating margins have been falling. However, the company indicated in yesterday's prospectus for its SFr700m ($483m) initial public offering that it expected its operating margins to start recovering. It said its sales should start accelerating as a result of a number of initiatives to improve its performance.

Sulzer, the Swiss engineering conglomerate which is floating off 35 per cent of Sulzer Medica, the most profitable part of its group, has not given any profit forecast for Sulzer Medica. However, analysts who have started following the company in the run-up to its flotation last month believe that its earnings could grow by between 10 per cent and 18 per cent over the next five years. Sulzer Medica's traditional business – making orthopaedic products such as replacement hips and knees – still accounts for more than half of its annual sales of SFr1.2bn ($828m).

Sulzer Medica is number one in Europe and number four in the world. It is the slowest growing part of the group, with sales increasing at a compound annual rate of 3.8 per cent a year in US dollar terms since 1992, but its operating margin of 17.5 per cent has remained stable. *William Hall, Zurich*

Ford to lift Otosan stake

Ford Motor, of the US, said yesterday it would spend $48m to raise its stake in Otosan, one of Turkey's leading vehicle makers, from 30 per cent to 41 per cent. Ford is buying the additional shares from family and corporate members of the Koc group, one of Turkey's biggest companies. After the deal, Ford's stake in Otosan will equal that of Koc and the two companies will share management responsibility. The move follows last week's decision by Fiat to invest heavily in Tofas, its joint venture with the Koc group, to start building the Italian group's new range of "world" cars in Turkey. *Haig Simonian, Motor Industry Correspondent*

Beta Systems welcomed

Shares of Beta Systems Software, the latest issue on Germany's new stock market segment for fast-growing, innovative companies, more than doubled yesterday on the first day of trading. They closed at DM206 compared with an issue price of DM100, reflecting investors' enthusiasm for a rare German technology stock. Traders did not expect the steep rise to last, however.

Beta, the fourth company to be quoted on Frankfurt's Neuer Markt, raised nearly DM113m ($65m) through the issue. The first price quoted was DM215, with many subscribers to the shares taking the opportunity to sell at a quick profit. *Andrew Fisher, Frankfurt*

UBS sells two businesses to GE Capital Services

By William Hall in Zurich

Union Bank of Switzerland is selling its Swiss car leasing and consumer credit businesses to GE Capital Services, the fast-growing US financial services company. The deal, the terms of which were not disclosed, is the US group's first foray into the Swiss market.

UBS is the leader in Swiss car leasing, with 26 per cent of the local market, and it is number three in consumer credit, with a 17.7 per cent market sbare. These businesses are operated by Bank Aufina, a UBS subsidiary based in Brugg, which employs 350 staff and has assets of SFr1.85bn ($1.28bn).

UBS has been trying for some time to make a success of this side nf its business. In 1994, it merged its three separate consumsr credit operations into Bank Aufina, and cut staff and costs to be more competitive. However, it has decided to sell because it no longer counts car leasing and consumer loans as core businesses.

UBS's decision to pull out of businesses long regarded as a normal part of the financial armoury of a universal bank is a sign of its determination to turn round its Swiss retail banking business, which lost SFr130m last year.

The decision to sell to GE Capital Services is another sign of the changing balance of power in global financial services.

GE Capital, the financial services arm of General Electric of the US, is one of the biggest and most successful parts of the world's biggest company by stock market capitalisation.

Since 1985, GE Capital's business has grown more than seven-fold, or more than twice as fast as that of UBS. Last year, it increased its net income 17 per cent to $2.8bn. Its long-term return on equity of 22 per cent is more than twice that of UBS.

Unlike UBS, GE Capital has held on to its triple A credit rating, and it is using its financial strength to finance a large number of acquisitions in niche financial markets in Europe. Over the last coupls of months it has bought the Czech Republic's largest independent car leasing company and has expanded its presence in the Italian car leasing market through the acquisition of Vega Lease.

Mr Gary Wendt, GE Capital chief sxecutive, said Bank Aufina is a "strong organisation with strict cost managemsnt, an excellent repntation and a modern infrastructure".

All of these securities having been sold, this advertisement appears as a matter of record only.

$882,050,000

POLO RALPH LAUREN CORPORATION

33,925,000 Shares
Class A Common Stock
(par value $.01 per share)

6,900,000 Shares

This portion of the offering was offered outside the United States by the undersigned.

Goldman Sachs International
Merrill Lynch International
Morgan Stanley Dean Witter

Credit Lyonnais Securities · Den Danske Bank · Dresdner Kleinwort Benson
ING Barings · Mediobanca - Banca di Credito Finanziario S.p.A.
Nikko Europe Plc · Schroders · Yamaichi International (Europe) Limited

27,025,000 Shares

This portion of the offering was offered in the United States by the undersigned.

Goldman, Sachs & Co.
Merrill Lynch & Co.
Morgan Stanley Dean Witter

Bear, Stearns & Co. Inc. · Chase Securities Inc. · Dillon, Read & Co. Inc.
Donaldson, Lufkin & Jenrette Securities Corporation · A.G. Edwards & Sons, Inc. · Everen Securities, Inc. · Furman Selz
Lazard Frères & Co. LLC · Montgomery Securities · J.P. Morgan & Co.
Prudential Securities Incorporated · Robertson, Stephens & Company LLC · Salomon Brothers Inc
Smith Barney Inc. · Wasserstein Perella Securities, Inc. · The Buckingham Research Group Incorporated
Advest, Inc. · Robert W. Baird & Co. Incorporated · William Blair & Company · Dain Bosworth Incorporated
Edward D. Jones & Co., L.P. · Legg Mason Wood Walker Incorporated · Principal Financial Securities, Inc.
Rauscher Pierce Refsnes, Inc. · Charles Schwab & Co., Inc. · Stephens Inc.
Sutro & Co. Incorporated · Tucker Anthony Incorporated · Blaylock & Partners, L.P.
Gerard Klauer Mattison & Co., Inc. · J. J. B. Hilliard, W. L. Lyons, Inc. · Interstate/Johnson Lane Corporation
Roney & Co. · Scott & Stringfellow, Inc. · Muriel Siebert & Co., Inc. · Stifel, Nicolaus & Company Incorporated

June 1997

Notice of Interest Rate
To Holders of
Republica Federativa do Brasil
Series A-L IDU Bonds
Due 2001

Notice is hereby given that the Bonds will bear interest at 6.8125 per cent per annum for the 185 day period from 1 July 1997 to but not including 2 January 1998. Interest payable on the Bonds on 2 January 1998 amounts to US$35.07 per US$1,000 principal amount outstanding.

MORGAN GUARANTY TRUST COMPANY OF NEW YORK
as Fiscal Agent and Calculation Agent

RPS
Residential Property Securities No.3 PLC

£150,000,000 Class A2 Notes · £5,000,000 Class B Notes

Mortgage Backed Floating Rate Notes due 2025

In accordance with the provisions of the Notes, notice is hereby given that for the three month period 27th June 1997 to 29th September 1997, the Class A2 Notes and Class B Notes will carry an interest rate of 7.095% and 8.125% per annum respectively. The interest payable per £100,000 Note will be £1,431.36 for the Class A2 Notes and £2,092.47 for the Class B Notes.

NATWEST MARKETS

شكرا من الاهل

COMPANIES AND FINANCE: UK

Leisure side disappoints as strong pound hits Center Parcs

Courage buy lifts S&N

By Ross Tieman

Scottish & Newcastle, Britain's biggest brewer, last year reaped the benefits of its takeover of rival Courage as pre-tax profits before exceptionals climbed 21 per cent to £374m.

The benefits from combining the businesses was complemented by surging sales of John Smith's bitter and Foster's lager, as S&N began to shift emphasis from cutting costs to developing brands.

Pre-tax profits for the year to April 27 were flattered by the absence of a £151m reorganisation charge taken in 1996. They leapt from £157m to £372m on sales of £3.35bn.

Josh Shar

Sir Alistair Grant, chairman, (left), with Brian Stewart, chief executive

The core of the improvement was a sharp rise in brewing profitability. On sales up 20.5 per cent to £2.17bn, Scottish Courage, the company's brewing arm, lifted operating profits 45.8 per cent to £177m.

Since the takeover of Courage in August 1995, two breweries have been closed and some 1,800 employees shed. Cost savings from the combination of Courage's operations in England with the S&N operations in the north-east and in Scotland now total £46m, with a further £24m to come next year.

Mr Derek Wilkinson, group finance director, said the big improvement came during the second half. During 1996, S&N focused on rebuilding margins at the expense, where necessary, of market share. The company's share of the UK market was about 28 per cent.

Consumer preference for well-promoted brands saw sales of Foster's lager, second to Bass's Carling in popularity, rise 12 per cent to more than 2m barrels a year. Kronenbourg and Becks also grew strongly at the premium end.

The tied estate, within a whisker of the 2,624-pub limit imposed by the government, lifted operating profits 9 per cent to £172m.

A drive is under way to revive the Chef & Brewer chain, with an emphasis on fresh food.

The company's leisure division continued to disappoint, with a 10.6 per cent fall in operating profits to £78.5m.

S&N blamed the strong pound for a downturn at its Center Parcs holiday villages, but said the performance of existing villages had fallen because management was distracted by new openings.

S&N shares closed down 4½p at 646½p.

PacifiCorp bid sparks top tier job wrangles

By Simon Holberton

Senior directors of Energy Group, which is being bought by Oregon-based PacifiCorp for £3.65bn, could receive up to two years' pay if they leave the company within the next year.

One of the company's advisers suggested that working out the "social relations" between the top executives of both companies had met a snag. "The reason jobs are not more clearly spelled out is to do with sensitivities within PacifiCorp," he said.

According to its offer document, posted to shareholders yesterday, change of control provisions in the service contracts of top Energy Group executives mean that Mr Derek Bonham, chairman, could receive £900,000, Mr John Devaney, chief executive, £700,000, and Mr Eric Anstee, finance director, £500,000.

Moreover, the three could receive as much again if their performance-related pay benefits, which have yet to be calculated, reach their maximum.

It was expected that Mr Bonham would be named deputy chairman of PacifiCorp, with Mr Devaney as chief operating officer, and Mr Anstee taking a senior European role. Mr Iri Engelhardt was expected to be put in charge of the enlarged PacifiCorp's coal interests.

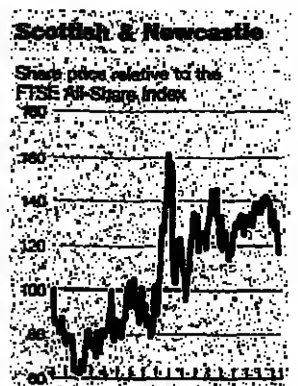
The offer document failed to clarify what roles the three would perform in PacifiCorp. Instead, it repeated PacifiCorp's pledge that Mr Bonham and Mr Devaney would join the board, and that Mr Anstee would join an enlarged management committee.

Merchant bank advisers also look set to receive a windfall, with total payments to Goldman Sachs, Morgan Stanley and Lazard Brothers of about £24m.

PacifiCorp is making a recommended 690p a share cash offer for Energy Group, the recently demerged Hanson energy company. It will also pay Energy Group's 5¾p a share dividend.

LEX COMMENT

S&N



The stock market has gone off beer. There are concerns over the impact of Carlsberg-Tetley's extended independence. And returns from pub investment have been predicted to drop because of ambitious development programmes and fears of a consumer downturn. Scottish & Newcastle provided plenty of comfort yesterday. It has generated average pre-tax returns of 25 per cent on pub investments in the past three years and the trend is upwards. Integration of the Courage brewing business is on target, with only minimal spillage in beer sales. And C-T is talking about survival through cutting capacity rather than beer prices, suggesting a more benign environment for brewers. Yet S&N has underperformed the stock market by 16 per cent in the past year.

Of course, new pub investment is reducing profits from existing pubs. But pub values are rising, so S&N can sell less attractive properties. And there is no shortage of development sites in its portfolio. The other problem is the Center Parcs holiday business. It achieved only an 8 per cent pre-tax return on invested capital last year; but at least management is holding back expansion and there should be a pick-up this year.

S&N sits at a 15 per cent prospective price/earnings discount to the market average. But it is a cash generative business, growing faster than the market and offering above average investment opportunities. As with its peers in the brewing sector, the hangover has lasted too long.

Unilever disposal to Heinz

By Ross Tieman

Unilever, the Anglo-Dutch consumer goods company, yesterday announced the sale of its UK-based John West Foods business to HJ Heinz, the US foods group.

The disposal ends a relationship that endured more than 70 years after Lever Brothers, one of Unilever's parents, acquired its Merseyside fish-processing neighbour. Under Unilever, John West has grown to command 35 per cent of the UK canned fish market.

However, the fish brands have fallen victim to the portfolio review introduced by Unilever's joint chairmen, Mr Niall FitzGerald and Mr Morris Tabaksblat. They have set out to focus Unilever, which has annual sales of £33bn, on core areas of fabric cleaners, personal cleaning products, skin care, prestige products, margarine, ice-cream and tea-based drinks.

Heinz, meanwhile, has declared tuna processing a core activity. It plans to use its processing plants in Ghana and the Seychelles to produce fish under the John West brand.

John West operations in Australia, New Zealand and South Africa are excluded from the sale.

SAirGroup acquires ERC

By Charles Batchelor, Transport Correspondent

SAirGroup, previously known as Swissair, has been successful in its second attempt to buy the former British Rail catering division, acquiring European Rail Catering from its management for an undisclosed sum yesterday.

ERC has sales of £43m ($71m) and the deal will double the revenues of Rail Gourmet, the airline's rail catering division. It will increase its share of the European rail catering market to 11 per cent. Rail Gourmet provides catering for high speed trains in Spain and on the high speed Thalys service between Paris, Brussels and Amsterdam.

ERC, then known as OBS Services, was acquired by its management in October 1995 in a deal worth £11.5m. At the time it was making a pre-tax profit of about £2m on sales of £33m. Candover Investments and its 1994 fund provided a total of £7m, with the remaining equity coming from management, while Bank of Scotland provided debt finance.

Rail Gourmet is believed to have paid a substantial premium to the original buy-out price for the company.

SEOUL TRUST

International Depositary Receipts
Evidencing Beneficial Certificates
representing 1,000 units (and 100 units)

Notice is hereby given to the Unitholders that DAEHAN INVESTMENT TRUST Co., Ltd. (the "Manager") has declared a distribution of Won 388,000 per IDR of 1,000 Units (Won 38,800 per IDR of 100 Units) payable on or after June 25, 1997 in the Republic of Korea as well as the possibility, until August 21, 1997, of reinvesting in new IDRs of 100 Units all or part of the distribution to which holders are entitled.

1. DIVIDEND PAYMENT

Payments of coupon no. 17 of the International Depositary Receipts will be made on or after June 25, 1997, in US dollars at one of the following offices of Morgan Guaranty Trust of New York.
- Brussels, Avenue des Arts 35
- New York, Wall Street 60
- Frankfurt, Boersenstrasse 2-4

The amount of dollars shall be the net proceeds of the sale of the Won amount to an exchange bank in the Republic of Korea at the rate quoted by Korea Exchange Bank on the day of remittance by the Manager, and will be distributed to the Unitholders in proportion to their respective entitlements after deduction of all taxes and charges of the Depositary.

Holders residing in a country having a double taxation treaty with the Republic of Korea may obtain payment of their coupons at a lower rate of the Korean non-resident withholding tax, on condition that they furnish to either the Depositary or through one of the designated sub-paying agents a certificate showing their residence together with a copy of the Certificate of Incorporation or a copy of the passport for individuals. Those documents are required by the Korean National Tax Administration Office as evidence of residence and without them the full rate of 27.50 pct Korean non-resident withholding tax will be retained.

For residents of the United Kingdom, the trust intends to apply for distributing status for the accounting period ended May 31, 1997. UK beneficiaries will in most circumstances be liable to tax on the distribution whether reinvested or not.

If any holder shall fail to request the distribution by the end of October 1997, the unrequested amount of distribution will be sent to the Depositary in cash after deduction of 27.50 pct tax no later than the end of November 1997.

For 5 years, the Depositary will keep the amount for delayed distribution requests. The unclaimed money shall return to the trust on June 1, 2002.

2. PROCEDURE FOR REINVESTMENT OF THE DISTRIBUTION

All reinvestment requests in a whole multiple of 100 Units are to be sent no later than August 21, 1997, together with the above-mentioned required documents, to one of the following addresses:
- If the IDRs are held in Euroclear: to Euroclear Operations Center, DR & Invest. Fund Department, Boulevard Emile Jacqmain 151, 1210 Brussels (phone 32.2.224.47.27, telex 61025).
- If the IDRs are held outside Euroclear: to Morgan Guaranty Trust Company of New York, IDR Department, Avenue des Arts 35, 1040 Brussels (phone: 32.2.508.84.44, telex 21752).

The issue price of reinvestment will be net asset value per Unit on August 26, 1997.

In cases where reinvested distributions are not a multiple of 100 Units, the Unit holder can request a partial reinvestment and a partial cash distribution.

The reinvestment shall be made on August 26, 1997, and the issue and delivery of IDRs to the persons entitled to reinvestment on September 26, 1997.

Depositary: Morgan Guaranty Trust Company of New York, Avenue des Arts 35, 1040 Brussels

JP Morgan

ALCATEL ALSTHOM

1997 Annual shareholders' meeting

« Major changes are in process in our businesses and our markets. Concerning your Company, we are confronting this new world with firm determination to secure the place we deserve. If I had to summarize the spirit that drives the choice we are proposing to you in one word, I would say « offensive »; offensive in the approach to our customers; offensive towards growings markets, and offensive in new technologies ».

Serge Tchuruk

Extracts from the Chairman's Address

Dear Shareholders,

This year I can show you the first tangible results of the vigorous recovery plan put into place at the end of 1995, which you approved but was still, one year ago, at the beginning of its implementation.

The rebound in income from operations is a significant reflection of progress achieved, considering that it grew from FF 600 million in 1995 to FF 2.9 billion in 1996. This beginning of the recovery, as well as the capital gains realized from disposal of assets, lead to a return to profitability with FF 2.7 billion compared with a historical loss of FF 25.6 billion in 1995.

An analysis of the principal items in the consolidated income statements and the balance sheet reflects the trends which give some indication of the future. Orders grew by 8% over the previous year, mainly due to growth in Telecom, the key segment essential to the Group's future, and where growth was more than 20%. Sales increased by only 1% because the strong growth in the previous year's orders will only begin to have an effect beginning in 1997, due to the time gap between the cycle of orders and deliveries. In our balance sheet, there are two items that should be especially noted:

- the decrease in net financial debt. At the end of 1996, it amounted to FF 13.1 billion compared with FF 20.0 billion the previous year. This significant improvement in our financial situation was made possible by our asset disposal program, for a total value of more than FF 11.0 billion in 1996,
- significant drop in the debt/equity ratio.

This ratio has decreased to 34% compared with 61% in 1995 and places us in a favorable position, both at the French and international levels.

To summarize, even if 1996 can be characterized as a transition year, all of these elements are encouraging. The operating results of your Group are still modest but they are well in line with the action plan established eighteen months ago. They are witness to the magnitude of the efforts undertaken as well as to their first results. They are the basis of our confidence and have led me to propose to our Board of Directors to submit to your vote a 25% increase in the dividend, increasing from FF 8.0 to FF 10.0 per share, for a total dividend of FF 15.0 per share compared with FF 12.0 per share, including tax credit.

What about the future and, first of all, the short-term future, that is 1997?

The first quarter 1997 performance is encouraging: sales grew by 12.1% in real terms. The Telecom segment, in particular, registered a growth of 18% in sales and 10% in orders.

Even though, as usual, we wish to remain prudent in our outlook, it is clear that 1997 should confirm the initial progress of the past year.

The increase in sales registered in the first quarter should continue for the rest of the year, in conjunction with a drop in our costs, the effect of which is becoming more pronounced. It is thus realistic to think that our income from operations should more than double in 1997. Our progress should be particularly significant in the Telecom segment, whose importance within the Group, as well as its difficulties in the past, has weighed on the total performance. We should, therefore, continue to stay well in line with our recovery plan, which has the objective by 1998, of returning to a satisfactory level of profitability, in proportion to the size, the technological capabilities, and the ambitions of your Company.

In order to do this, it is necessary to pursue the strategy of refocusing and increasing productivity gains. We will not change our strategy, whatever the difficulties may be. The market price for the majority of our equipment, whether electronic or electro-technical, is dropping by about 10% per year. Stringent management is an absolute condition to survive and the restructuring in process must be continued.

What now are the major choices that I propose to you to prepare our medium and long term future?

They are certainly linked to the developments in our businesses and our markets. Major changes are in process. It is necessary to understand and, if possible, to anticipate them.

Concerning your Company, we are confronting this new world with firm determination to secure the place we deserve. If I had to summarize the spirit that drives the choice we are proposing to you in one word, I would say "offensive": offensive in the approach to our customers, offensive towards growing markets, and offensive in new technologies. I will explain these different points more explicitly.

Our customers are no longer content to have equipment suppliers, they want, more and more, optimized global solutions, intended to reinforce their competitive positions with their own clients. Your company has the best assets to answer this need with its expertise in the field of turn-key activities, both in its domestic and export markets. For turn-key projects, we have put together the expertise of the Telecom, Cable and Components, Engineering and Systems teams.

You already know how important mobile communications have become. We are confronted with a phenomenal growth. The number of mobile lines should equal half of the fixed lines by the year 2000. We are progressing well in this market where our technology is now confirmed. As of today, we have accumulated a capacity close to 10 million subscribers with our GSM networks throughout the world. And for example, France Telecom is introducing our new line of mobile telephones, which exists in all colors, under the name of OLA.

You know, without a doubt as well, that Internet, stimulated by a booming innovation, is in the process of becoming the major multimedia communications tool of tomorrow. We think that there will be 250 million Internet users toward the year 2000, which means a fourth of the number of fixed subscribers. This is an extremely significant market, in which we have decided to concentrate our efforts. Already, it seems that your Company is one of the leaders in high speed access lines, particularly well adapted to this market, and which is based on ADSL technology. It will allow bits of information to be passed 200 times faster by your copper telephone line. We have received major contracts in this activity in the U.S.

Concerning international development and, in particular, Asia, your Company benefits from strong and historical businesses acquired through its activities in central telephone exchanges, notably in China, India, Indonesia, Thailand and Taiwan. These positions are the springboard for our growth in a region which is taking a more and more important role in the world economic arena.

But even though the developments are occurring simultaneously worldwide, I must recognize that our success in the United States is a source of pride for Alcatel Alsthom. We have had major success there and it has been noted by our competitors. With just a symbolic presence at the beginning of this decade, we have achieved 1996 sales amounting to US$ 2.0 billion in Telecom and Cables with, notably, a leadership position in synchronous transmission. We expect to double our sales between now and the end of this century in a market which, while already very developed, maintains a strong growth, fueled by intense competition between operators, technological and commercial innovation, and in a favorable economic context. This brief glimpse on the other side of the Atlantic illustrates, in a dazzling fashion, that the telecommunications market, liberated from monopolistic restraints, has become a formidable environment for opportunities, under the condition that one takes the necessary measures.

That is why I spoke earlier of the necessity of technological offensive. Our effort in research and development is considerable. We have invested FF 16.6 billion in 1996, essentially in telecommunications. Our most recent successes in software, in control platforms and network management systems, as well as in the transmission field (optical networks, ADSL access) and components (optoelectronics), make us confident of that choice. In this regard, half of the 80,000 people of the Group working in the Telecom segment is composed of engineers and technical managers, of which more than 15,000 engineers are software specialists.

I have spoken about our major activities in the telecommunications market. I would now like to speak briefly about the other major markets for the Group: energy and transport.

In the markets which concern our Cables and Components, Engineering and Systems, as well as our subsidiaries GEC Alsthom and Framatome, the developments are equally profound. The traditional balance between the different sources of electrical energy have been modified by the arrival of gas turbines and the reduction of waste from coal-fired plants.

In mass transport, railroad transportation is experiencing a second youth; this concerns the railroad, the subway, or the streetcar. This is being nurtured by technological advances in the TGV or the pendulum train, but equally due to the significant growth resulting from efforts to protect the environment, which often leads to a preference to rail transportation.

Here, as well, I will use the same word to characterize our strategy - that is offensive. In energy, as in transport, deregulation is forcing our customers to look for new sources of productivity. One of the ways which is being followed in many countries is the delegated management of maintenance services and the maintenance of materials. The other significant trend is the development in emerging countries. The Engineering and Systems segment, as well as the subsidiaries GEC Alsthom and Framatome, have adapted an offensive strategy in these countries, based on turn-key contract offers, on the development of local production, and on the creation of special financing.

In conclusion, I would like to come back to what motivates the men and women of your Group. In the commercial successes that we registered in 1996, it turned out that speed was a determining factor. I want to speak here, of course, of the speed with which is always offered by our equipment and systems but also of the acceleration in product renewal and the shortening of delays that we maintain in regard to our customers.

To be offensive, speed is essential. This is, without a doubt, the first reason that has driven us to choose the motto "The Hi Speed Company" for Alcatel Alsthom, which we do not translate because it should be understood by all of our customers throughout the world, as well as all of our employees.

The second reason is that this motto equally constitutes an invitation to profoundly change the culture within our Company. This very high speed is that which mobilizes your Company's employees toward a new approach to customers: anticipatitive, creative, fast.

Ladies and Gentlemen, dear Shareholders, we have ambitious objectives. The achievements have been and will have imperatively to continue to be in line with our targets. This is how we will create value for our shareholders, which is our goal, but equally our source of pride. The financial markets have understood this and that is reflected in the clear progression of Alcatel Alsthom's share price. When the Annual Shareholders' Meeting appointed me as Chairman in June 1995, Alcatel Alsthom's share price was FF 466. Today, the share price has increased by close to 40%. I assure you of my personal determination and that of all of the Group's employees. I sincerely hope that they will receive the same commitment and the same support from you, as has been the case during the last two years. I thank you in advance.

« Safe Harbor » statement under the Private Securities Litigation Reform Act of 1995: The above release contains forward looking statements which are subject to a number of risks and uncertainties which could cause actual results to differ materially from those projected. Such expectations assume that the Company's operations, growth in revenue, income from operations and restructuring plans will not be affected by unexpected factors including market declines, the effects of privatizations or deregulation in the telecommunications sector, increased competition, the development of new technologies, increases in other costs, or changes in volume.

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Lonrho/JCI merger talks break down

By Mark Ashurst in Johannesburg and Ross Tieman in London

Lonrho, the UK-based conglomerate, yesterday confirmed the break down of merger talks with JCI, South Africa's first black-controlled mining house.

But both companies appeared optimistic that they might ultimately achieve a more limited combination of their coal mining interests in South Africa.

Lonrho said merger discussions, announced on May 19, had been "discontinued". The company said all contacts had been halted. Its shares fell 4p to 127½p.

But in a statement released by JCI in Johannesburg, Mr Terence Wilkinson, managing director of Lonrho South Africa, and a member of the main board, said JCI "had been approached to discuss other possible transactions which could unlock value for shareholders in both JCI and Lonrho".

Advisers to JCI said Mr Wilkinson had played a key role in discussions over the initial merger proposal put to Lonrho by Mr Mzi Khumalo, JCI's chairman, last month.

Any future contacts are expected to focus on the South African coal interests of Lonrho's Duiker and JCI's Tavistock subsidiaries.

A merger of the adjacent mines would resolve Lonrho's need for additional export terminal facilities and create a formidable force in the South African coal industry which has an annual capacity of more than 18m tonnes.

Analysts predicted that JCI, which was sold to a consortium of black investors in November at a premium of almost 70 per cent to the current market price, would also seek to bolster its share price by including international gold assets in a deal.

JCI owns Prestea gold mine in Ghana, and also has prospects in central Africa, Indonesia and Russia.

However, it is likely to face competition to collaborate with Lonrho's precious metals operations from more robust rivals, including Gencor.

Lonrho's attractions have been increased by a programme of disposals, which is set to culminate in the demerger of its African trading interests during the first quarter of next year. That will leave Lonrho as a mining group keen to expand through acquisitions and partnerships.

Any outcome is likely to require the support of Anglo American, which holds 27.4 per cent of Lonrho and an effective 18 per cent of JCI.

FKI in discussions for Bridon

By Peter Marsh

FKI, the acquisitive engineering group, is in talks to purchase Bridon, the world's second biggest maker of specialist wire and rope. The City assumes a deal could value Bridon at about £150m ($248m).

Bridon's shares jumped 28 per cent to 135¼p, as FKI's slipped 3p to 170p.

In the past two years FKI has spent £330m on acquisitions, pushing annual sales to £1bn. In January it launched a £189m bid for Newman Tonks, the maker of building products, before Ingersoll-Rand of the US made a successful £230m counter-offer.

Analysts welcomed a possible deal, noting that FKI could integrate some of Bridon's manufacturing expertise into its own division which makes lifting and conveyor systems.

FKI is also believed to be interested in Bridon's Certex distribution business, which has operations in 20 countries and sells engineering items on behalf of other companies, as well as handling some of Bridon's own products.

FKI could use Certex to add marketing channels for many of its products, which range from power generation systems and specialist sensors to clutch cables and door knobs.

In the year to March 31, FKI gained a quarter of its £1bn sales from materials handling systems, many of which require wire and related products. Pre-tax profit, before exceptionals, was £112.1m.

Bridon made a pre-tax profit of £7.3m in 1996 on sales of £261.8m. It has spent heavily on restructuring its operations after losing money in 1995.

The Certex division accounts for just over half annual sales. The rest of the group concentrates on wire and rope. Bridon is capitalised at £101.2m and if a deal proceeded FKI would assume debt of about £40m.

ICI Australia sale approved

By Roger Taylor

Sir Ronald Hampel

ICI yesterday won shareholder approval at an extraordinary meeting for the sale of the controlling stake in its Australian subsidiary after answering questions on its decision to reject a bid from Wesfarmers, the Australian resources group.

ICI announced in May its intention to sell through a public offering its 62.4 per cent stake in ICI Australia but refused to rule out a trade sale.

Sir Ronald Hampel, chairman, said yesterday that Wesfarmers had offered to buy 19.9 per cent of ICI Australia at A$12 ($8.90) a share and had expressed an intention to buy the rest at a later date. But with no guarantees of this and an offer price below the market price, ICI could not accept, he said.

However, he conceded that ICI might be able to secure better terms or price by way of a trade sale and remained open to offers.

The company said there had been strong interest from brokers, institutions and the public since the offer document was sent out last week.

Private investors are being given a 40 cent discount on the offer price.

ICI Australia's shares have performed strongly since the deal was announced and continued to rise yesterday to close at A$13.07, valuing the stake at A$2.4bn, compared with A$12.44 when the sale was announced.

The sale is part of ICI's £3bn programme of disposals to fund the £4.9bn acquisition of Unilever's speciality chemicals arm.

As part of the disposals, ICI confirmed yesterday that it was in discussions to sell and lease back its headquarters at Millbank, London, for about £100m. It is believed to be in discussion with a number of institutions including Prudential.

Once the Australian disposal is completed, ICI plans to sell many of its bulk chemicals businesses starting with Tioxide, the manufacturer of titanium dioxide – the white colouring used in paint.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aukett Associates	6 mths to Mar 31	3.15	(2.66)	0.037	(0.168L)	0.08†	(1.07L)	-	-	-	-	nil
Bath Press	Yr to Mar 31	57.5	(35.8)	5.51	(2.87)	2.27†	(1.63)	0.35	Oct 1	0.29	0.51	0.43
Beale	6 mths to May 3	32.4	(27.4)	2.56	(2.36)	16.7	(15.4)	3	Oct 6	2.55	-	8.3
Brasway	Yr to May 3	38.6	(40)	2.62♠	(2.55)	2.29	(2.25)	0.59	Oct 24	0.55	0.9	0.83
C&B Publishing Φ	6 mths to Feb 28	4.21	(3.89)	0.181	(0.159)	4.08†	(3.79)	-	-	-	-	-
ClubPartners Φ	Yr to Dec 31 ★	3.57	(2.76)	3.44L♠	(0.447L♠)	8.1L	(1.3L)	-	-	-	-	-
Coda	6 mths to Apr 30	20	(15.3)	0.06	(3.69L)	0.2	(13.9L)	-	-	-	-	nil
Columbus	Yr to Mar 31 ⁂	21.71	(2.57)	2.09♠	(0.172L)	0.78†	(0.73L)	0.27	Sept 25	-	0.37	-
Compco	Yr to Mar 25	12.1	(8.23)	2.82♥	(2.07♥)	9.15†	(7.4)	3.24	Sept 2	3.24	3.74	3.24
Crown Leisure	6 mths to Mar 31	15.2	(12.5)	0.552	(0.466)	2.13†	(2.13)	0.75	July 31	0.51	-	1.95
Dwyer Estates	6 mths to Mar 31	4.23	(3.35)	1.51	(1.21)	2.7	(2.2)	0.6	July 31	0.4	-	1.4
Eurasia Mining Φ	Yr to Dec 31	-	(-)	1.43♠	(0.582L)	54.1	(58.08)	-	-	-	-	-
Feedback	Yr to Mar 31	10.1	(8.29)	0.374L♠	(1.9L♠)	3L	(22.3L)	nil	-	nil	nil	nil
Ferrum	Yr to Dec 31	14.3	(25.6)	0.008	(21.9L♠)	0.1	(86.99L)	-	-	-	-	-
Greycoat	Yr to Mar 31	34.1	(37.6)	1.3♠	(0.3L)	1‡	(0.5L)	1.2	Aug 13	0.8	1.2	0.8
Independ't Energy Φ	9 mths to Mar 31	5.5	(-)	0.959L	(-)	7.3L	(-)	-	-	-	-	-
Intercare	6 mths to Apr 30	22.3	(21.2)	0.975	(0.556)	2.2	(1.3)	0.8	Aug 22	0.7	-	3.5
Jardinerie Φ	6 mths to Mar 31	2.44	(0.758)	0.242	(0.01)	1.8	(5L)	-	-	-	-	-
Mulberry Φ	Yr to Mar 31	31.7	(28)	1.68	(0.816)	5.8	(2.7)	0.75	Sept 8	-	1.5	-
Oriel	Yr to Dec 31	40.6	(31.1)	0.871	(7.8L)	2.42L†	(29.96L)	3.75	Oct 3	3.25	5.75	5.25
Pacific Media Φ	Yr to Dec 31	1.3	(1.67)	1.03L♠	(5.43L♠)	0.08L	(0.42L)	-	-	-	-	-
Personal Number Φ	Yr to Mar 31	2.74	(1)	0.834L	(0.437L)	10L	(38.2L)	-	-	-	-	-
Quadrant	12 mths to Feb 28♦	38.8	(52.3)	2.79L♠	(15.7L♠)	7.58L	(41.89L)	nil	-	nil	-	nil
Radstone Tech	Yr to Mar 31	16.6	(19.3)	1.83L	(3.9L♠)	12.27L	(20.99L)	nil	-	nil	nil	nil
Ronson	Yr to Dec 31	31.6	(34)	2.17L♥	(4.02)	2.39L†	(3.42)	nil	-	1.25	0.25	1.5
Scot & Newcastle	Yr to Apr 27	3,349	(2,969)	372	(156.9♠)	46.5	(18.5)	14.17	Sept 1	12.88	21.38	19.43
Tops Estates	Yr to Mar 31	16.5□	(18.7□)	2.34	(2.54)	3.63	(4.43)	1.863	Oct 31	1.764	2.558	2.436

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Hiscox Select	15 mths to Mar 31☆	102.1	(100)	4.59	(0.74)	15.3	(2.5)	8.7	Aug 29	1.2	11.3	2.4
Martin Currie Japan	Yr to May 31	100.3	(106.8)	0.016	(0.018L)	0.08	(0.06L)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ‡On reduced capital. †On increased capital. ΦAim stock. ★Comparatives restated. ⁂Pro-forma. □Rental income. ☆Comparatives for 12 months and restated. ♦Current period covers 15 months.

STET

STET · Società Finanziaria Telefonica · per Azioni
Registered Office in Turin - Corporate Headquarters in Rome
Capital Stock L. 5,281,212,121,000 fully paid-in
Entered under No. 286/33 in the Ordinary Section of the Company Register of Turin
Tax I.D. No. 00471850016

DEPOSIT OF THE ANNUAL FINANCIAL STATEMENTS OF STET AND THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE GROUP AT DECEMBER 31, 1996

In accordance with Consob Resolution No. 5553 of November 14, 1991 notice is hereby given that the documents listed below have been deposited at the Registered Office at 34 Via Bertola, Turin (Tel. +39-11-55951), and at the Corporate Headquarters at 41 Corso d'Italia, Rome (Tel. +39-6-85881), where they will be provided to anyone who requests them:

- A publication containing the annual financial statements of STET at December 31, 1996, together with the reports of the Board of Directors, the Statutory Auditors and the Independent Auditors and the required annexes, as well as the consolidated financial statements for the Group as of the same date, plus reports from the Statutory Auditors and the Independent Auditors;
- Minutes of the Ordinary Shareholders' Meeting of June 6, 1997, which approved the 1996 annual financial statements;
- Form 20-F (Annual Report 1996), prepared in English and filed with the SEC – Securities and Exchange Commission, as required under U.S. law.

The above documents have also been filed with the Stock Exchange Council, where they are available to anyone who requests them.

Halifax Building Society
(Incorporated in England under the Building Societies Act 1986)
Issue of up to an aggregate of
£200,000,000
Subordinated Variable Rate Notes with a maturity of 12 years
(formerly Subordinated Variable Rate Notes issued by Leeds Permanent Building Society)

Notice is hereby given that for the three months interest period from June 27, 1997 to September 29, 1997 (94 days) the Subordinated Notes will carry an interest rate of 7.225%. The interest payable on September 29, 1997 for the Subordinated Notes will be £186.07.

By: The Chase Manhattan Bank
London, Principal Paying Agent
July 1, 1997
CHASE

C.A. La Electricidad de Caracas, SAICA-SACA
U.S. $209,554,000
July 1, 1997
CHASE

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Toby Finden-Crofts
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Models courtesy of The LEGO Group.

SPOT THE REFUGEE

There he is. Fourth row, second from the left. The one with the moustache. Obvious really.

Maybe not. The unsavoury-looking character you're looking at is more likely to be your average neighbourhood slob with a grubby vest and a weekend's stubble on his chin.

And the real refugee could just as easily be the clean-cut fellow on his left.

You see, refugees are just like you and me.

Except for one thing.

Everything they once had has been left behind. Home, family, possessions, all gone. They have nothing.

And nothing is all they'll ever have unless we all extend a helping hand.

We know you can't give them back the things that others have taken away.

We're not even asking for money (though every cent certainly helps).

But we are asking that you keep an open mind. And a smile of welcome.

It may not seem much. But to a refugee it can mean everything.

UNHCR is a strictly humanitarian organizatioo funded only by voluntary contributions. Currently it is responsible for more than 19 million refugees around the world.

UNHCR Public Information
P.O. Box 2500
1211 Geneva 2, Switzerland

UNHCR
United Nations High Commissioner for Refugees

INT

MERCURY SELECTED TRUST (the "Company")
Registered Office: 6D, route de Trèves, Senningerberg, Luxembourg
R.C. Luxembourg: B.6317

NOTICE TO BEARER SHAREHOLDERS

Bearer Shareholders are informed that a number of changes were made to the Company on 30th June 1997. The changes include the merger of the Belgian Franc Global Bond Fund with the DM Global Bond Fund and the change of names of the following Funds.

Old Name	New Name
Asian Opportunities Fund	Asian Emerging Markets Fund
Dollar Global Bond Fund	US Dollar Global Bond Fund
Dollar Reserve Fund	US Dollar Reserve Fund

Bearer Shareholders in these Funds should deliver their certificates to one of the Company's Paying Agents for exchange or overstamping.

A revised Prospectus is available on request from the registered office of the Company and from the Paying Agents.

Paying Agents:
Banque Internationale à Luxembourg S.A.
69 route d'Esch
L-1470 Luxembourg

SBC Warburg
(a division of Swiss Bank Corporation)
Swiss Bank House
1 High Timber Street
London EC4V 3SB
Att: Corporate Action – Paying Agency

1st July 1997
The Board of Directors

Commonwealth Bank Australia
Commonwealth Bank of Australia ACN 123 123 124
(successor in law to the State Bank of Victoria)
U.S. $125,000,000
10-Year Extendible Floating Rate Capital Notes

For the six months 30th June, 1997 to 31st December, 1997 the Notes will carry an interest rate of 5.[illegible]% per annum with an interest amount of U.S. $304.43 per U.S. $10,000 Note. The relevant interest payment date will be 31st December, 1997.

Listed on the London Stock Exchange

Bankers Trust Company, London
Agent Bank

The Nippon Credit Bank (Curaçao) Finance, N.V.
U.S. $500,000,000
Subordinated Floating Rate Guaranteed Notes 2000

In accordance with the terms and conditions of the Notes, notice is hereby given that the interest rate for the Interest Period from 27th June, 1997 to 29th September, 1997 is 6.2125% per annum. The Coupon Amount payable on the 29th September, 1997 in respect of each of U.S. $10,000 in principal amount of each Note is U.S. $162.22.

Bankers Trust Company, London
Agent Bank

THE STARS PROGRAMME
STARS 1 PLC
£475,000,000 Class A Floating Rate Mortgage Backed Securities 2029

Notice is hereby given that the Rate of Interest has been fixed at 7.225% and that the interest payable on the relevant Interest Payment Date September 29, 1997 against Coupon No. 27 in respect of £10,000 nominal of the Notes will be £96.07.

July 1, 1997, London
By: Citibank, N.A. (Corporate Agency & Trust), Agent Bank
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LAW

Court upholds UK entry laws

EUROPEAN COURT

UK laws denying a right of appeal to persons refused entry to the UK on public policy and public security grounds are not incompatible witb European law, the European Court of Justice ruled recently.

The case arose out of two applications in the English High Court for jndicial review of the home secretary's decislon lo refuse them entry to the UK.

Mr Shingara, a French national, attempted to visit the UK in March 1991 but was refused entry on the grounds that it would be contrary to tha interests of public policy and public security to allow him to enter the UK.

He was admitted to the UK in July 1993 after sbowing his French identity card, but was later arrested and detained as an illegal immigrant. He was granted leave to apply for judicial review of his detention and was relaased, after which be returned to France.

Mr Radiom, who had both Iranian and Irish nationality, resided in Ireland. He had previously worked in the UK for the Iranian Consular Service, but in 1989 he was informed that following tbe severance of diplomatic relations between the UK and Iran, he had to leave the UK within seven days or face deportation.

Mr Radiom left the UK but in October 1992 be applied to the Home Office for a new residence permit. That application was refused by a letter whicb stated tbat although he was an EU national, be had no right of appeal. Mr Radiom subsequently applied for judicial review of that decision.

The High Court considered both cases turned on the proper construction of the European directive on tbe co-ordination of special measures concerning the movement and residence of foreign nationals whicb are justified on grounds of public policy, public security or public health.

It lberefore stayed the proceedings and referred n number of questions to the European Court of Justice for a preliminary ruling.

The first question concerned the proper construction of the provision of the directive wbich provided that a person refused entry on the grounds of public policy, public security or public health had to be able to challenge that decision by means of the same legal remedies available to nationals of the state concerned.

The Court said the free movement of persons provisions of the Treaty of Rome permitted member states to adopt, with respect to the nationals of other member states, and on the grounds specified in those provisions, in particular, grounds justified by the requirements of public policy, measures whicb they could not apply to their own nationals, since they bad no authority to expel or refuse entry to their own nationals.

The two situations were in no way comparable and consequently the availability of a remedy such as judicial review against administrative acts generally satisfied the obligation imposed on member states by the directive.

In reply to the other questions, the Court ruled that since decisions prohibiting entry into a member state of a national of another member state were derogations from the fundamental principle of freedom of movement, those decisions could not be of unlimited duration.

An EU national against whom sucb a prohibition bad been issued therefore had to be entitled to apply to bave their situation re-examined, if they considered that the circumstances whicb earlier justified the prohibition no longer existed.

C-65/95 and C-111/95: R v Secretary of State for the Home Department, ex parte Shingara and Radiom, ECJ FC, June 17 1997.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

New head for Gold Fields

Richard Robinson has taken the helm at Gold Fields of South Africa, the world's third biggest gold producer, following the retirement of its former executive director, Alun Munro.

Robinson, 44, will run the group's gold operations, which are set to undergo a bold restructuring during the current spate of corporate transactions in the South African mining sector.

Rembrant, the mining and industrial group wbicb is the biggest shareholder in Gold Fields, is in talks with Cyril Ramapbosa, e former leader of the National Union of Mineworkers, to sell joint control of Gold Field's bolding company to New Africa Investments, South Africa's biggest black-controlled company.

Ramaphosa sits on the main board of Anglo American, the country's biggest company, and is known lo favour closer ties between the two groups. Robinson, who has been with Gold Fields since 1976, was formerly director of new business and international operations. He will be succeeded by Clive Woolfe-Coote, 47.

Mark Ashurst

Disney adds a tier of management

Walt Disney has resorted to an unfashionable tactic for curing persistent viewership troubles with its ABC lelevision network: adding an extra layer of management.

It bas brought in Stuart Bloomberg as chairman of ABC Entertainment, the network's Los Angeles-based programming division, over the head of Jamie Tarses, president, poached from NBC last year amid much brouhaba. The dno will report to Robert Iger, president of ABC Inc. Bloomberg, a 19-year veteran at ABC, was tha network's leading prime time programming executive until 1995 when - with ABC at the top of the ratings - he was shuffled off to New York as head of a back-room creative development operation.

His appointment, like that of 33-year-old Tarses last year, has been the subject of speculation for some weeks, and has roused fresh gossip that Tarses could have cause for complaint that she was given scant opportunity to show her prowess.

Her first big effort to raise ABC from its third-place ranking, will not be tested until this autumn with the launch of 10 new series.

Still, she seems likely to stay at least for the medium-term, to judge by a breezy statement from Disney this week, which quoted her as saying she was looking forward to "having someone alongside me in the hot seat."

How bot the seat is - and Tarses' heat resistant qualities - may become apparent when the new season ratings figures come in later this year.

Chris Parkes

Siddiqui on way to Citicorp

Citicorp has hired Sami Siddiqui, who currently runs the card business of Providian Financial, a San Francisco-based bank, to run its North American credit card division, the world's largest issuer of Visa and MasterCards with about $45bn in managed receivables.

The appointment, one of the most sought-after in American retail banking, follows one of the most sweeping management reorganisations Citicorp has seen in recent years.

Siddiqui, 44, worked for Citibank for two years in the early 1980s, in fraud and risk prevention. At Providian, the card business was best known as a specialist in secured loans, for those who have difficulty qualifying for large unsecured lines of credit.

He replaces Roberta Arena, who had run the Citibank card business since January 1994. She decided in April this year to take early retirement after a reorganisation which required her to answer to William Campbell, who runs Citicorp's international retail banking operations, in what was generally regarded as a reduction in her authority.

Arena's job has now been split several ways, and Siddiqui will not inherit her control over Citibank's European card business or global travellers' cheque operation.

John Authers

King for Exxon

Exxon Corporation bas appointed Reatha Clark King, president and executive director of the General Mills Foundation and vice president of General Mills, to its board of directors.

ON THE MOVE

■ Einar Kloster has been chosen to succeed Torvild Aakvaag, who is retiring as chairman of NORSK HYDRO.

■ FIDELITY INVESTMENTS has appointed Simon Fraser, 38, chief financial officer, Asia/Pacific based in Tokyo. He was previously chief investment officer for Fidelity Investment Services, Japan. Robert Auld has been appointed chief operating officer for investments, Hong Kong.

■ UBS has maa a number of changes in its foreign exchange business in the Asian time zone. Richard Silver, head of currency derivatives, has moved to Singapore from New York asregional manager for foreign exchange activities in the Asian time zone; Anthony Ngai, treasurer in Hong Kong, becomes deputy regional manager for foreign exchange Asia; Ken Lee has been appointed head of foreign exchange Tokyo; Takao Sakob will assume the role of a currency-orientated senior banker on behalf of both foreign exchange and fixed income products.

■ J. O. EDWARDS has appointed Trevor Salomon marketing director for Sumah (Scandinavia, UK, Middle East, Ireland, Africa and Holland) operations. He joins from SAP, where he was communications director.

■ MEMORY CORP, the solid state memory technology company, has appointed Arun Kamat as vice president of marketing, based in San Jose, California.

■ Simon Kenny has been named senior vice president and managing director, WALT DISNEY TV INTERNATIONAL (Latin America).

■ Smart card technology company MONDEX INTERNATIONAL has appointed Christopher Masters head of marketing. He joins from KPMG.

■ Francois Newey, 53, joins the GROUP BULL executive team on July 1. He will be replacing Camille de Montalivet as executive vice-president and chief financial officer. He was formerly chief financial officer of Pechiney Group.

■ DELTA AIR LINES has appointed Malcolm Armstrong, 55, as vice-president corporate safety and compliance. He joins from US Airways where he was vice-president corporate safety and regulatory compliance.

■ CATHAY PACIFIC AIRWAYS has appointed Rob Atkinson as finance director, replacing Victor Hughes, who has retired.

■ DELTA AIR LINES has named Stephan Egli, 37, as vice-president - Atlantic/Pacific Business Unit for the company, effective in early July. He will be responsible for Delta's transoceanic operations. He joins from Swissair, where his most recent assignment was vice-president - network management.

■ Staffan Jerneck, former secretary general of the International Chamber of Commerce in Sweden, has joined the CENTRE FOR EUROPEAN POLICY STUDIES, the Brussels think tank, as deputy director and director of corporate relations.

■ Mike Meehan has resigned as managing director of Durban-based GRIFFIN SHIPPING HOLDINGS.

■ ITT INDUSTRIES, the diversified US manufacturing group has named Frank Macher, 56, as president of ITT Automotive, based in Auburn Hills, Michigan. Macher joins the company after a 30-year career at Ford Motor Company, most recently as vice-president and general manager of the automotive components division.

■ Richard Hoag has been appointed president and chief operating officer of LOGICAL COMPUTER SERVICES, a US technical services and consulting firm. He was previously with management consultancy MAP, Newport Beach.

■ Dale Marco has been promoted to head management consultants A. T. KEARNEY's European manufacturing practice in London.

■ Calgary-based ABACAN RESOURCE CORPORATION has announced that Daryl (Doc) Seaman has assumed the role of chairman. He is the former chairman of Bow Valley Energy and a director of several other public companies. James Harvie has joined the board and will become vice-chairman, serving as chief operating officer on an interim basis. John Halpin has resigned as chief financial officer. Dirk Lever, vice-president of corporate finance will serve as chief fiancial officer.

■ MERISEL of California has announced that Karen Tallman has joined the company as vice-president and general counsel.

■ KIMBALL INTERNATIONAL of Indiana has appointed six senior executives, following a senior management shake-up: Brian Habig, 40, executive vice-president, sales and marketing for Kimball Office Group, Gary Schwartz, 49, executive vice-president chief information officer, John Kahle, 40, executive vice-president and general counsel, Randall Catt, 48, executive vice-president, human resources, Roy Templin, 36, vice-president, corporate controller, Robert Burke, 41, vice-president of sales for the Kimball Office Group, a unit of Kimball International Marketing.

■ MCDONNELL DOUGLAS SPACE & DEFENSE SYSTEMS has announced the appointment of Perry Cain as manager of community relations. Cain joined McDonnell Douglas from Harrah's Entertainment, Memphis, Tennessee, where he was director of government relations.

■ AGISS SOFTWARE CORPORATION of Ottawa has appointed Scott Feagan as president and chief operating officer. He was previously president of CPAD Technologies. Sandy McQuarrie is appointed senior vice-president operations and Francois Hubert is vice-president business development. Al Scollion is appointed as director technology sales.

■ BANCO SUD AMERICANO, the Chilean commercial bank, has appointed Mike Martinez-Blank, 44, as head of its metal, mining and project finance areas.

■ SCANDINAVIAN BROADCASTING SYSTEMS has announced that Freddy Thyes, president of European television operations, has resigned.

■ CREDIT AGRICOLE INDOSUEZ has appointed James Foo to head the bank's operation in Singapore, effective August 1. Before joining the merchant bank, Foo was a director at Schroders International Merchant Bankers in Singapore.

■ Werner Gonser is to be chairman of RABOBANK DEUTSCHLAND (Frankfurt). He was recently head of ABM AMRO BANK's Düsseldorf branch.

■ ALLIANZ BGZ has appointed Pawel Dangel president of its life and non-life branches.

■ ICI Australia has appointed executive director Philip Weickhardt, 48, managing director of the company. He replaced former managing director Warren Haynes, who has recently died. Weickhardt has spent all of his working life with ICI and is also a director of Incitec, which is controlled by ICI Australia.

■ VODAFONE Australia has appointed Andrew Birch as operations director. He was formerly director of operations with Honeywell Pacific's Building Control Group.

■ TANDEM COMPUTER has appointed Peter Ciceri as its new Asia Pacific vice-president and managing director. He previously held a similar position with UB Networks.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3936, marked for International People. Set fax to 'fine'.

FT FINANCIAL TIMES Conferences

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1 & 2 December 1997, Hotel Inter-Continental, London

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- Investment Opportunities in Telecoms: Implications for Margins & Returns on Investment in the Context of Liberalisation
- Creating Shareholder Value in the Telecommunications Industry
- Mobile v Fixed Line: Does Mobile Replace Fixed Link? Can Quality Problems be Overcome?
- New Technologies: Beyond The Hype – The Real Implications of the Internet and Prospects for Electronic Commerce

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Mr Jay Naidoo*, Minister for Posts, Telecommunications and Broadcasting, South Africa
Mr Arun Sarin, President & Chief Operating Officer, Airtouch Communications
Dr Sam G Pitroda, Chairman, Worldtel Limited
Mr Richard H Brown, Chief Executive, Cable and Wireless plc
Mr Andrew Sukawaty, Chief Executive Officer, Sprint PCS (USA)
Mr Don Cruikshank, Director General, OFTEL
Mr Andrew Beale, Telecommunications Analyst, UBS
Mr Reed Hundt, Chairman, Federal Communications Commission (FCC)
Mr David Twyver, Chief Executive Officer, Teledesic Corporation
Mr John Sidgmore, Chief Executive Officer & President, UUNET Technologies Incorporated
Mr Alfred T Mockett, Managing Director, Global Communications, BT

* Subject to final confirmation

The organisers reserve the right to alter the programme as may be necessary

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The Netherlands

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June 25, 1997

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INTERNATIONAL CAPITAL MARKETS

Data raise prospect of rate increase

GOVERNMENT BONDS

By John Labate in New York and Michael Lindemann and Samer Iskandar in London

US and European bond markets lost ground yesterday following stronger than expected manufacturing and housing data which again raised the prospect of higher interest rates.

US TREASURIES fell sharply in the morning. The benchmark 30-year bond plunged ⅝ to 97⅝, sending the yield up to 6.812 per cent. The 10-year bill price fell ⅜ at 100⅜, yielding 6.524 per cent.

"It's going to be a tough week, and we've gotten off to a rocky start," said Mr Elliott Platt of Donaldson, Lufkin & Jenrette in New York. The Chicago purchasing management index, measuring business activity, shot up to 61.5 per cent in June, its highest level in more than two years. A figure above 50 per cent indicates an expansion in manufacturing activity.

Traders were also watching data on sales of new single-family homes, which advanced 7.1 per cent in May, following an 8.1 per cent decline in April.

"The concern is that the Fed might tighten [interest rates] later this year, but it is still unlikely to happen this week," added Mr Platt. The Federal Reserve meets to decide interest rate policy on Tuesday and Wednesday.

Markets also absorbed new income and spending data, neither of which surprised analysts. Personal income rose 0.3 per cent in May, on track with April's 0.2 per cent rise. Consumption expenditures increased by 0.3 per cent in May.

The shorter-term two-year bill price lost ¼, at 99⅞, yielding 6.084.

GERMAN BUNDS took their lead from Treasuries but analysts said further complications on Germany's internal political scene had added to bearish sentiments.

The Emu picture has been sullied by Mr Edmund Stoiber, the state premier of Bavaria, who again warned at the weekend that he would vote against Emu unless the 3 per cent budget deficit criteria were strictly interpreted.

If that did not occur, Mr Stoiber said he would push for a "controlled postponement" of the proposed single currency.

Analysts also pointed to economic indicators later this week which are likely to show further economic growth in Germany and will therefore dampen bond market enthusiasm.

Moreover, tomorrow the Bundesbank auctions its first 30 year bond since December 1993.

The September bund future settled at 101.49, down 0.34 from Friday's close.

More nerves ahead of tomorrow's budget took their toll on **UK GILTS**. Fears that Mr Gordon Brown's first budget would be tight – and that it would be marked by a further increase in interest rates – were heightened by the May consumer credit data, which was higher than expected, and by a 1 per cent rise in the June M0 money supply figures.

Most analysts suggested gilts could lose further ground today. The September future settled ⅞ lower at 113⅝.

FRENCH BONDS followed other European markets downwards. The September notional future closed at 129.22, down 0.16, then continued to drift lower in after-hours trading on Globex, the electronic trading system.

In the cash market the 10-year benchmark OAT fell 0.30 to end the session at 99.29. The yield spread of 10-year bunds over OATs remained unchanged at 12 basis points. Shorter maturities were also hit, with the five-year BTAN losing 0.17 at 100.75.

Pibor futures also ended the day lower, the September and December contracts losing 0.04 and 0.05 respectively at 96.55 and 96.51.

Traders said the fall was amplified by the thinness of trading volumes.

SPANISH BONOS and **ITALIAN BTPs** also lost ground but continued to outperform bunds, a fact which cheered analysts.

"That's encouraging," said Mr Julian Jessop at Nikko Securities. "If they can outperform in a weakened market, the chances are they can do the same in a rising market which is not usually the case. That suggests there's still quite a lot to be had in convergence trades."

Traders added that bonos underperformed BTPs because the Spanish Treasury will be offering Pta600bn in four maturities today and tomorrow, the first time it will be offering strippable bonds.

"People are selling to make room for the bonds at tomorrow's auction," said Mr Jose Ramon Arechedera, trader at ABN Amro in Madrid.

The September bono future settled at 116.58, down 0.20 on Friday's close, while the September BTP future settled at 134.00, down 0.08. Bonos tightened their yield spread over bunds by two basis points, ending at 65, while BTPs picked up six basis points to bring the spread in to 115 basis points.

CAPITAL MARKETS NEWS DIGEST

Investment grade rating for Lodz

Standard & Poor's, the US credit rating agency, yesterday awarded the Polish city of Lodz an investment grade credit rating. The BBB– rating, which is the same as Poland's sovereign foreign currency ceiling, is the first rating awarded to a Polish city or municipality.

S&P said the request by Lodz for a credit rating was unusual as so far ahead of its planned debut eurobond, which is expected to be launched in the next 12 months. But officials in Lodz – Poland's second-largest city – wanted to "enhance their acceptability" with the international investor community by getting a rating, according to S&P.

The city of Lodz was also awarded a BBB– rating on its local currency debt. It issued its first domestic zloty bond earlier this year. Poland was recently placed on "positive outlook" by S&P. *Edward Luce*

Sabanci IPO to raise $180m

Sabanci Holding, the Turkish industrial and financial conglomerate, yesterday said it expected to raise $180m from its forthcoming initial public offering of shares after pricing the American Depositary Shares at $9, at the bottom of the $9-$10.50 price range.

Morgan Stanley Dean Witter, global co-ordinator of the IPO, said the international tranche, which makes up 90 per cent of the issue, had been 1.8 times oversubscribed. The ADSs had been priced at the bottom of the range to account for the present volatility of Turkish politics, the bank said.

A further 10 per cent of the IPO is to be sold to Turkish investors in an offering which closes on Thursday and is priced at TL5,400. Bankers also said they were likely to offer an over-allotment option representing 15 per cent of the IPO.

On that basis, 11.5 per cent of Sabanci Holding stock will be publicly traded in Istanbul and London after the IPO. The offering implies a market capitalisation for Sabanci of $1.8bn. *Michael Lindemann*

D&P upgrades Philippines

Duff & Phelps, the US credit rating agency, yesterday upgraded the Philippines' foreign currency obligations to BB+, one notch below the investment grade threshold of BBB-.

This rating retains a "positive outlook", meaning that the next rating is likely to be an upgrade. D&P said its decision recognised "the substantial progress that the Philippines has achieved toward macroeconomic stabilisation and sustainable growth".

"The Philippines has now recorded four successive years of economic expansion, declining inflation and an improvement in the government's fiscal position," D&P said. It warned, however, that the country had a large trade deficit of about 13.4 per cent of gross domestic product in 1996, and that the prospects of reducing tha trade gap were uncertain. *Samer Iskandar*

World Bank jumbo dominates sector

INTERNATIONAL BONDS

By Edward Luce

The World Bank yesterday dwarfed rival offerings with a L1,000bn jumbo bond which dominated much of the Italian market.

The 10-year offering, the largest lira bond this year apart from the European Investment Bank's two L,1000bn offerings, was billed as a benchmark issue by officials at J.P. Morgan, sole bookrunner.

Priced to yield a spread of 37 basis points below 10-year BTPs, the bond tightened to a spread of 41 basis points through BTPs in the secondary markets.

An official said that about half tha distribution went to non-Italian investors, with about half of that going to Asian investors, including central banks.

The bond was priced to yield the same as the World Bank's L300bn five-year issue in April, reflecting the rally in the Italian market since then and the cut in the Italian official discount rate last week.

The World Bank was helped by the Italian Treasury's decision to cancel its traditional mid-month BTP auction owing to the government's declining borrowing requirement. "The World Bank was basically stealing some of that unmet demand," said an official.

MOULINEX's FFr300m high-yield bond went down well with investors in the UK, Switzerland and Benelux, according to an official at Bankers Trust, joint arranger with Crédit Lyonnais. "We oould have sold the entire bond to any one of those countries," said tha official.

The high-yield offering – the first to be denominated in French francs – was priced to yield 210 basis points over three-month Pibor. It is callable in July 2000 at a price of 103.5 and in July 2001 at 101.25 to cover the possibility of a strong improvement in the company's credit rating.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Bayerische Landesbank	250	5.125	98.873R	Jul 2000	0.1875R	+2(6¼%May00)	Commerzbank, London
Bayerische Hypo(s)	200	6.25	99.88R	Dec 1999	0.175R	+20(6%Jun99)	Nomura/UBS
Banco Mello, Tranche A(a)‡	75	(a1)	100.00	undated	0.75	-	Salomon Brothers Intl
Banco Dibens(b)★	50	(b1)#	99.88R	Jul 2005	0.80R	+380(6⅜%-00)	Crdt Agricole Indosuez
D-MARKS							
Rabobank Nederland	350	4.25	99.935R	Jul 2001	0.225R	+10(5%May01)	Rabobank International
Turkiye Emlak Bankasi	150	8.50	99.00R	Jul 2002	1.50R	+428(4⅛%-02)	Commerz/UBS Germany
Hellenic Republic‡	100	(c)	99.91	Jul 2002	0.15	-	Nomura Bank(Deutsch)
Hellenic Republic‡	100	(d)	100.00R	Jul 2002	0.23R	-	Goldman Sachs Frankfurt
FRENCH FRANCS							
Moulinex(e)‡	300	(e1)	100.00R	Jul 2002	1.00R	-	Bankers Trust/C Lyonnais
ITALIAN LIRE							
World Bank	1000bn	6.50	99.251R	Jul 2007	0.05R	-	JP Morgan Securities
European Inv'bank Bank(f)	250bn	(f1,s)	99.135R	Feb 2007	0.325R	-	BNL/Credito/Paribas
CIR International(g)‡	200bn	(g1)	100.00R	Jul 2002	0.375R	-	BCI
GUILDERS							
GECC(s)	200	4.625	99.987R	Jul 2002	0.25R	flat(5¾%-02)	ABN Amro Hoare Govett
CANADIAN DOLLARS							
KfW Intl Finance(h,s)	100	5.375	98.231R	Dec 2002	0.25R	+14¾(7Sep01)	Deutsche/Hambros Bank
GECC(s)	100	5.625	99.60R	Dec 2002	0.25R	+18(7%Sep01)	Toronto Dominion Bank
AUSTRALIAN DOLLARS							
National Australia Bank(i)	100	7.00	101.495	Jul 2004	2.00	-	Hambros Bank
SWEDISH KRONOR							
Nordic Investment Bank	500	6.00	101.375	Aug 2003	1.875	-	Svenska Handelsbanken

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable from Jun 02 at par. a1) 3-mth Libor +150bp to Jun 02, then +300bp. a2) Tranche B: $25m, 8⅛%pa to 30/6/02 then 3-mth Libor +300bp, callable from Jun 02, 99.575%. b) Callable & puttable on 2/7/00 at 99.71%. b1) 10% to 2/7/00, then 10¾%. c) 6-mth Libor +20bp. d) 6-mth Libor +20bp. e) Callable in Jul 00 at 103½% and Jul 01 at 101¼%. e1) 3-mth Pibor +210bp. f) L1,250bn launched last week was increased to L1,500bn. f1) 9% to 15/2/99, then 5¾%. g) Callable & puttable in Jul 00 at par. g1) 3-mth Libor +50bp. h) C$100m launched 18/6/97 was increased to C$200m. i) A$100m launched 12/6/97 was increased to $A200m. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	10/07	121.1424	+0.400	7.07	7.00	7.67
Austria		5.750	04/07	99.0400	-0.380	5.88	5.90	5.86
Belgium		6.250	03/07	103.3900	-0.160	5.78	5.83	5.91
Canada *		7.250	06/07	106.6000	-0.590	8.34	6.08	6.47
Denmark		7.000	06/07	105.0500	-0.060	6.31	6.39	6.36
France	BTAN	4.750	03/02	100.7462	-0.170	4.57	4.63	4.73
	OAT	5.500	04/07	99.2900	-0.300	5.59	5.66	5.72
Germany Bund		6.000	07/07	102.1900	-0.260	5.71	5.71	5.89
Ireland		8.000	08/06	109.8900	-0.280	5.55	6.54	6.67
Italy		6.750	02/07	100.1000	+0.160	6.73†	6.84	7.09
Japan	No 148	5.600	06/02	118.0256	+0.030	1.67	1.68	1.82
	No 182	3.000	09/05	104.2980	-0.040	2.38	2.38	2.58
Netherlands		5.750	02/07	101.2000	-0.260	5.56	5.61	5.75
Portugal		8.500	02/06	121.0000	-0.150	6.27	6.28	6.38
Spain		7.350	03/07	106.8100	-0.170	8.36	6.39	6.52
Sweden		8.000	08/07	109.7682	-0.160	6.64	6.75	6.94
UK Gilts		7.000	06/02	99-19	-8/32	7.10	7.13	7.00
		7.250	12/07	101-05	-15/32	7.09	7.17	7.15
		9.000	10/08	114-07	-17/32	7.14	7.22	7.21
US Treasury *		6.625	05/07	100-21	-16/32	6.53	6.38	6.72
		6.625	02/27	97-19	-24/32	6.81	6.66	6.95
ECU (French Govt)		7.000	04/06	107.5800	-0.360	5.87	5.94	6.00

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: Standard & Poor's MMS.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	0.08
Prime rate	8½	Two month	-	Three year	6.25
Broker loan rate	7¼	Three month	5.17	Five year	2.40
Fed.funds	6¼	Six month	5.26	10-year	6.52
Fed.funds at intervention	-	One year	5.66	30-year	6.79

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	129.48	129.22	-0.16	129.58	129.14	6,277	204,981
Dec	98.06	97.82	-0.10	98.10	97.88	558	2,514
Mar	97.46	97.22	-0.16	97.46	97.46	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
125	-	4.27	-	0.01	0.07	-
126	3.26	3.37	-	0.05	0.16	-
127	2.33	2.51	-	0.12	0.30	-
128	1.49	1.73	-	0.27	0.52	-
129	0.77	1.06	-	0.55	0.86	-

Est. vol. total. Calls 19,089 Puts 12,842. Previous day's open int., Calls 73,884 Puts 44,269.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	101.92	101.49	-0.34	101.98	101.43	138498	254445
Dec	101.00	100.58	-0.32	101.00	100.58	2911	9055

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Aug	CALLS Sep	CALLS Oct	CALLS Dec	PUTS Aug	PUTS Sep	PUTS Oct	PUTS Dec
10100	0.82	1.09	0.85	1.15	0.33	0.60	1.27	1.57
10150	0.52	0.80	0.65	0.93	0.53	0.81	1.67	1.85
10200	0.29	0.56	0.49	0.74	0.80	1.07	1.91	2.16

Est. vol. total, Calls 13732 Puts 14804. Previous day's open int., Calls 139821 Puts 170787

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	134.55	134.00	-0.08	134.70	133.82	44351	98548
Dec		106.45	-0.08			0	270

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Sep	CALLS Dec	PUTS Sep	PUTS Dec
8000		26.45		0
8050		25.95		0
6100		25.45		0

Est. vol. total, Calls 745 Puts 900. Previous day's open int., Calls 68061 Puts 82588

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	116.99	116.58	-0.21	117.08	116.46	50,412	90,220
Dec	100.05	99.84	-	100.05	100.05	101	137

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	114-17	113-30	-0-17	114-18	113-26	54643	167807
Dec		113-18	-0-17			0	0

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Aug	CALLS Sep	CALLS Oct	CALLS Dec	PUTS Aug	PUTS Sep	PUTS Oct	PUTS Dec
113	1-22	1-46	1-46	2-15	0-26	0-50	1-14	1-47
114	0-45	1-09	1-14	1-46	0-49	1-13	1-46	2-16
115	0-22	0-45	0-53	1-22	1-26	1-49	2-21	2-54

Est. vol. total, Calls 3370 Puts 2015. Previous day's open int., Calls 30566 Puts 20819

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	96.32	96.10	-0.16	96.40	96.04	1,128	5,112

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	111-20	111-10	-0-10	111-22	111-10	238,823	421,517
Dec	111-05	110-31	-0-08	111-06	110-31	338	25,453
Mar	-	110-15	-	-	-	84	2,204

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	124.07			124.16	124.00	843	na
Dec	123.51			123.52	123.51	30	na

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Mon Jun 30	Day's change %	Fri Jun 27	Accrued interest	xd adj. ytd
1 Up to 5 years (20)	119.95	-0.11	120.08	2.41	5.38
2 5-15 years (20)	152.39	-0.37	152.95	2.45	5.93
3 Over 15 years (6)	180.16	-0.52	181.12	5.87	5.02
4 Irredeemables (5)	208.47	-0.56	209.64	2.18	7.34
5 All stocks (51)	146.91	-0.31	147.36	3.08	5.68
Index-linked					
6 Up to 5 years (2)	205.08	-0.02	205.12	1.50	3.08
7 Over 5 years (10)	197.99	-0.16	198.30	1.84	2.86
8 All stocks (12)	197.66	-0.14	197.95	1.78	2.86

	Low coupon yield Jun 30	Jun 27	Yr. ago	Medium coupon yield Jun 30	Jun 27	Yr. ago	High coupon yield Jun 30	Jun 27	Yr. ago
5 yrs	7.07	7.01	7.31	7.12	7.06	7.36	7.18	7.12	7.43
15 yrs	7.08	7.02	8.13	7.15	7.09	8.13	7.20	7.13	8.29
20 yrs	7.08	7.02	8.24	7.15	7.09	8.22	7.20	7.13	8.30
Irred.†	7.23	7.18	8.33						

	Inflation 5% Jun 30	Jun 27	Yr. ago	Inflation 10% Jun 30	Jun 27	Yr. ago
Up to 5 yrs	3.60	3.59	2.68	2.94	2.93	1.16
Over 5 yrs	3.63	3.82	3.82	3.43	3.41	3.61

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jun 30	Jun 27	Jun 26	Jun 25	Jun 24	Yr ago	High*	Low*
Govt. Secs. (UK)	96.51	96.86	96.48	96.49	96.26	93.00	97.51	93.31
Fixed Interest	123.66	124.27	123.86	123.77	123.36	112.52	124.27	115.32

Gilt Edged Activity Indices

	Jun 27	Jun 26	Jun 25	Jun 24	Jun 23
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

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UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas Cnv 7pc 1997‡‡		7.00	6.47	100⅛	----	101⅛	100⅛
Treas 8¾pc 1997‡‡		8.72	6.48	100⅜	----	107⅛	100⅜
Exch 15pc 1997		14.62	6.68	102⅞	-⅛	111⅜	102⅞
Funding 3½pc 1999-4		4.00	5.92	88⅞			
Conv 9½pc 2004		8.38	7.11	113⅛			
Treas 6¾pc 2004‡‡		6.88	7.07	98⅛			
Conv 9½pc 2005		8.33	7.12	114			
[illegible]							

Index-Linked

	Notes	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
4⅝pc '98‡‡	(135.6)	-	2.91	114⅛	-⅛	114⅛	113⅛
2½pc '99	(78.3)	2.10	3.23	181⅞	-⅛	181⅞	179⅛
2½pc '01	(78.3)	2.08	3.59	185⅛	-⅛	187⅞	180⅛
[illegible]							

Other Fixed Interest

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on June 30

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	98⅞	99⅛	-¼	6.73
ABN Amro Bank 7¼ 00	1000	101⅛	101⅜	-⅛	7.19
African Dev Bk 7⅜ 23	600	99⅞	100⅜	-⅛	7.38
Alberta Province 7⅝ 98	1000	101⅛	104⅞		2.19
Argentina 11⅜ 17	2000	111	111½	-⅛	10.33
Spain 7¼ 03	4000	111	111⅛	-⅛	4.97
Volkswagen Intl Fin 7 03	1000	109½	108⅞	-⅛	5.28
World Bank 5⅞ 03	3000	104½	104⅝	-⅛	5.02
World Bank 6¼ 02	3000	108⅝	108¼	-⅛	4.77
World Bank 7⅛ 05	3000	110¼	110¼	-⅛	5.47
Abbey Natl Treasury 6 03 £	1000	102	102¾	-⅛	7.55
British Land 8⅞ 23 £	150	105¾	100		8.50
Denmark 6¾ 98 £	800	99⅞	99½	-⅛	7.31
Depfa Finance 7⅛ 03 £	500	97¾	97⅞	-⅛	7.57
EIB 8 03 £	1000	103⅛	103⅞	-¼	7.33
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.cpn=Current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

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● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

صكنا من الاصل

CURRENCIES AND MONEY

Eager consumers fuel the pound

MARKETS REPORT

By Simon Kuper

The pound rose to DM2.900 against the D-Mark yesterday, propelled by strong UK consumer credit data and by Britain's status as a safe haven from worries over European monetary union.

The pound gained 1.4 pfennigs as May consumer credit figures were seized upon as another augury of a UK consumer boom. Currency strategists said the weekend's British press had taken the view that Labour's first Budget tomorrow would do little to slow the economy. The market thinks Labour is reluctant to raise taxes on consumers sharply: that would be seen as breaking the spirit of the party's pre-election pledges on tax. Traders therefore expect the Bank of England to have to slow the economy by raising interest rates next week.

A row broke out in the German coalition after Mr Edmund Stoiber, Bavarian prime minister and a leading figure in the Christian Social Union, sister party of the ruling Christian Democratic Union, called for a delay to Emu if the fiscal entry criteria were diluted.

The prospect of a delay could have helped the D-Mark. But with the market bearish about the German currency, the news was taken as a new excuse for "safe haven" flows out of the Emu zone into sterling.

The last time the pound closed above DM2.90 was on July 2, 1992 – five years ago tomorrow. The D-Mark, meanwhile, is at five-year lows against a trade weighted basket of currencies. One forex strategist said that at this rate Germany risked exchanging a weak D-Mark for a weak euro – not what it wanted from Emu at all.

The dollar touched a 40-month high against the D-Mark, aided by strength in new US homes sales for May and in the Chicago purchasing managers' index for June. Traders expect the Federal Reserve to leave rates unchanged after its Open Market committee meeting starting today. However, they increasingly think that a rate rise next month is possible. The US currency closed in London at DM1.743 to the D-Mark, 0.7 pfennigs above Friday's close.

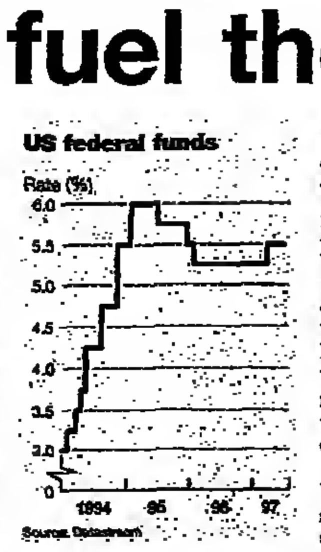
The lira continued rising despite Friday's Italian rate cut. It gained L1.7 against the D-Mark to L976.4.

■ Ireland's new government faces a dilemma. Sterling's spurt over the last fortnight has left the Irish punt in trouble again.

■ Pound in New York

Jun 30	– Latest –	– Prev. close –
£ spot	1.6660	1.6645
1 mth	1.6635	1.6639
3 mth	1.6592	1.6601
1 yr	1.6470	1.6488

US federal funds



Source: Datastream

The punt tends to share part but not all of the pound's moves against European currencies. So since August the Irish currency has dropped against sterling but soared against the D-Mark.

This trend is causing Ireland two problems. On the one hand, the country risks importing inflation from the UK, where the punt now buys just 0.907p. On the other, the punt's strength against the D-Mark stops it from converging with other European currencies expected to join Emu. The punt is now more than 9 per cent above its central rate against the weakest currency in the European exchange rate mechanism, the French franc. All other currencies in the ERM are within 2.35 per cent of their central rate.

With just 18 months to go before Emu is meant to start, Mr Bertie Ahern's government may have to act to achieve convergence.

Some in the market expect the punt to be revalued to a higher central rate against the D-Mark. Mr Kit Juckes, currency strategist at NatWest Markets in London, said that the Irish economy needed tightening, and a stronger currency would be one way of achieving this. But he added: "The temptation is not to revalue and to hope that sterling lets them off the hook by falling."

■ Two major landmarks have come into sight for sterling. Mr Paul Lambert, senior currency economist at UBS in London, said the pound's first target was its pre-1992 central rate within the European exchange rate mechanism of DM2.95. But already, he said: "It would be a brave man who wouldn't forecast now that we're going to DM3.00, given the rate of the pound's move and where it began."

■ The Hong Kong dollar barely moved on its last day under British rule. China takes over a currency worth HK$7.7473 to the US dollar.

■ OTHER CURRENCIES

Jun 30	£	$
Czech Kr	53.8230 - 53.9995	32.3680 - 32.4380
Hungary	311.347 - 311.817	187.150 - 187.160
Iran	4984.40 - 4991.40	3000.00 - 3000.00
Kuwait	0.5023 - 0.5029	0.3025 - 0.3027
Poland	5.4695 - 5.4730	3.2850 - 3.2875
Russia	9605.12 - 9612.56	5773.00 - 5774.00
UAE	6.1108 - 6.1150	3.6728 - 3.6731

WORLD INTEREST RATES

MONEY RATES

Jun 30	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3¼	3¾	3¾	3¾	6.00	2.50	-
France	3⅛	3⅛	3¼	3½	3⅝	3.10	-	4.75
Germany	3⅛	3⅛	3⅛	3¼	3⅜	4.50	2.50	3.00
Ireland	6½	6⅝	6⅜	6⅝	6¾	-	-	6.75
Italy	6⅞	6⅞	6⅞	6⅝	6⅝	8.25	6.75	6.82
Netherlands	3⅛	3¼	3¼	3⅜	3½	-	2.50	2.80
Switzerland	1½	1⅝	1⅝	1⅝	1¾	-	1.00	-
US	5⅜	5⅝	5¾	5⅞	6	-	5.00	-
Japan	½	½	½	⅝	⅝	-	0.50	-
■ $ LIBOR FT London Interbank Fixing	-	5⅝	5⅞	5⅞	6⅛	-	-	-
US Dollar CDs	-	5.48	5.55	5.67	5.87	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4¼	4¼	-	-	-
SDR Linked Ds	-	3⅞	3⅞	3⅞	3⅝	-	-	-

§ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 30	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.60	96.55	-0.04	96.61	96.54	27,142	77,982
Dec	96.56	96.51	-0.05	96.58	96.50	6,437	33,792
Mar	96.50	96.45	-0.05	96.51	96.45	135	31,318

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.85	96.82	-0.02	96.86	96.82	12319	260477
Dec	96.76	96.72	-0.03	96.77	96.71	33833	284709
Mar	96.57	96.52	-0.04	96.57	96.52	17098	237199
Jun	96.52	96.47	-0.04	96.52	96.46	13929	173514

■ ONE MONTH EUROMARK FUTURES (LIFFE) DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jul		96.90	-			0	395
Aug		96.88	-			0	290
Sep		96.86	-			0	3
Oct		96.85	-			0	50

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	93.00	93.04	+0.04	93.05	92.95	34005	117486
Dec	93.58	93.58	-	93.66	93.63	12183	79987
Mar	94.24	94.13	-0.01	94.24	94.10	6580	48484
Jun	94.36	94.29	-	94.30	94.28	2870	33629

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	98.52	98.47	-0.09	98.53	98.44	17095	68524
Dec	98.35	98.30	-0.10	98.36	98.28	5083	44892
Mar	98.28	98.20	-0.09	98.26	98.20	1543	16522
Jun	98.10	98.05	-0.08	98.10	98.05	256	4112

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		99.30	+0.01			0	na
Dec	99.11	99.11	+0.02	99.11	99.11	20	na
Mar		98.88	+0.02			0	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.85	95.84	-	95.87	95.82	411	8793
Dec	95.82	95.78	-0.03	95.82	95.78	107	8139
Mar	95.74	95.74	-0.05	95.74	95.74	1	4233
Jun		95.71	-0.04			0	3021

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
9300	0.30	0.68	0.87	0.07	0.07	0.09
9325	0.12	0.48	0.77	0.14	0.12	0.14
9375	0.03	0.30	0.58	0.30	0.19	0.20

Est. vol. total, Calls 2546 Puts 840. Previous day's open int., Calls 74090 Puts 36996

POUND SPOT FORWARD AGAINST THE POUND

Jun 30		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.4060	+0.0982	982 - 138	20.4561	20.3189	20.3519	3.2	20.2389	3.3	19.7334	3.4	102.5
Belgium	(BFr)	59.6816	+0.2619	603 - 828	59.8830	59.5650	59.6645	3.4	59.3212	3.4	57.7799	3.4	102.1
Denmark	(DKr)	11.0366	+0.0465	305 - 405	11.0661	10.9857	11.0082	3.0	10.9509	3.1	10.7015	3.0	104.7
Finland	(FM)	8.6446	+0.0344	380 - 515	8.6600	8.5900	8.6195	3.5	8.567	3.6	8.3543	3.4	82.2
France	(FFr)	9.7710	+0.0387	668 - 752	9.8061	9.7390	9.7449	3.2	9.6903	3.3	9.4457	3.3	104.6
Germany	(DM)	2.9001	+0.0142	988 - 014	2.9093	2.8866	2.8919	3.4	2.8743	3.6	2.7978	3.5	105.1
Greece	(Dr)	456.601	+1.402	580 - 021	457.471	455.454	456.584	-4.7	461.208	-3.9	469.578	-2.8	65.2
Ireland	(I£)	1.1032	+0.0021	021 - 042	1.1042	1.0997	1.1028	0.4	1.1019	0.5	1.0938	0.8	98.6
Italy	(L)	2831.61	+9.26	464 - 307	2837.66	2820.44	2831.89	0.0	2831.81	0.0	2830.85	0.0	78.4
Luxembourg	(LFr)	59.6816	+0.2619	803 - 829	59.9820	59.5650	59.6645	3.4	59.3212	3.4	57.7799	3.4	102.1
Netherlands	(Fl)	3.2600	+0.0133	591 - 627	3.2741	3.2493	3.2515	3.5	3.2324	3.5	3.1485	3.4	101.5
Norway	(NKr)	12.1640	+0.0565	782 - 519	12.2268	12.1236	12.1515	1.2	12.0864	2.2	11.8186	3.0	96.6
Portugal	(Es)	292.567	+0.885	386 - 738	293.377	291.686	292.411	0.6	291.681	0.9	287.793	1.6	93.0
Spain	(Pta)	244.760	+0.847	612 - 925	245.800	243.920	244.515	1.2	243.841	1.5	240.223	1.8	76.9
Sweden	(SKr)	12.8860	+0.0377	959 - 761	13.0059	12.8185	12.8449	2.2	12.7622	2.4	12.5919	2.2	84.3
Switzerland	(SFr)	2.4263	+0.0186	250 - 276	2.4343	2.4165	2.4158	5.2	2.3945	5.2	2.3038	5.0	104.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	102.1
Ecu	-	1.4762	+0.0048	751 - 772	1.4810	1.4719	1.4732	2.4	1.4668	2.5	1.4372	2.6	-
SDR†	-	1.168950	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6641	+0.0027	635 - 646	1.6677	1.6605	-	-	-	-	-	-	-
Brazil	(R$)	1.7917	+0.0042	911 - 923	1.7950	1.7863	-	-	-	-	-	-	-
Canada	(C$)	2.2960	+0.0008	949 - 971	2.2995	2.2898	2.2931	3.0	2.276	3.5	2.2264	3.0	84.8
Mexico	(New Peso)	13.2397	+0.0208	305 - 489	13.2588	13.2030	-	-	-	-	-	-	-
USA	($)	1.6643	+0.0032	638 - 648	1.6680	1.6612	1.663	0.9	1.6602	1.0	1.6476	1.0	102.7
Pacific/Middle East/Africa													
Australia	(A$)	2.2219	-0.0072	199 - 233	2.2376	2.2189	2.221	0.3	2.2181	0.5	2.209	0.6	92.1
Hong Kong	(HK$)	12.8938	+0.015	891 - 985	12.9220	12.8731	12.8928	0.1	12.8864	0.2	12.8313	0.5	-
India	(Rs)	59.6620	+0.0705	224 - 418	59.6730	59.5040	59.7772	-3.9	60.1776	-4.0	61.8575	-3.8	-
Israel	(Shk)	5.9810	+0.0048	629 - 991	6.0310	5.9300	-	-	-	-	-	-	-
Japan	(Y)	190.446	+0.061	322 - 570	190.920	189.890	189.471	8.1	187.516	8.2	176.231	5.9	133.2
Malaysia	(M$)	4.2007	+0.0077	989 - 026	4.2087	4.1963	4.205	-1.2	4.213	-1.2	4.2319	-0.7	-
New Zealand	(NZ$)	2.4557	+0.0089	540 - 573	2.4602	2.4486	2.4556	0.1	2.4565	-0.1	2.4637	-0.3	111.3
Philippines	(Peso)	43.8976	+0.043	411 - 540	43.9540	43.8411	44.0674	-4.4	44.3089	-3.7	45.3638	-3.3	-
Saudi Arabia	(SR)	6.2422	+0.0083	401 - 442	6.2558	6.2307	6.2387	0.7	6.2303	0.8	6.1938	0.8	-
Singapore	(S$)	2.3797	+0.0042	781 - 812	2.3844	2.3763	2.3751	2.3	2.365	2.5	2.3168	2.6	-
South Africa	(R)	7.5485	+0.042	437 - 532	7.5602	7.5151	7.6092	-8.7	7.7271	-9.5	8.164	-8.2	-
South Korea	(Won)	1477.90	+1.95	413 - 167	1481.67	1474.13	-	-	-	-	-	-	-
Taiwan	(T$)	46.2676	+0.0279	204 - 147	46.3370	46.2063	46.251	0.4	46.2112	0.5	46.0136	0.5	-
Thailand	(Bt)	43.1137	+0.1088	591 - 683	43.1683	40.0280	43.4503	-9.4	43.9119	-7.4	44.9421	-4.2	-

† Rates for Jun 27. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 30		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	12.2610	+0.0434	568 - 652	12.2660	12.2160	12.237	2.3	12.189	2.4	11.964	2.4	102.2
Belgium	(BFr)	35.9500	+0.11	300 - 700	36.0200	35.8150	35.875	2.5	35.7235	2.5	35.03	2.6	102.3
Denmark	(DKr)	6.6307	+0.0258	267 - 317	6.6475	6.6200	6.619	2.1	6.5847	2.2	6.4883	2.1	104.0
Finland	(FM)	5.1942	+0.0137	917 - 967	5.2068	5.1630	5.1827	2.7	5.1591	2.7	5.0682	2.5	81.5
France	(FFr)	5.8710	+0.0144	702 - 717	5.8815	5.8545	5.8596	2.4	5.8357	2.4	5.7288	2.5	104.2
Germany	(DM)	1.7426	+0.0063	423 - 428	1.7465	1.7365	1.7388	2.7	1.7309	2.7	1.696	2.7	102.9
Greece	(Dr)	274.470	+0.48	420 - 520	281.050	273.800	275.765	-5.7	277.82	-4.9	284.97	-3.8	64.8
Ireland	(I£)	1.5067	-0.0009	077 - 097	1.5150	1.5045	1.5079	0.6	1.507†	0.5	1.5074	0.1	-
Italy	(L)	1701.50	+4.31	125 - 175	1705.50	1695.25	1703.27	-1.2	1705.28	-1.1	1708.7	-0.5	78.1
Luxembourg	(LFr)	35.9500	+0.11	300 - 700	36.0200	35.8150	35.875	2.5	35.7235	2.5	35.03	2.6	102.3
Netherlands	(Fl)	1.9590	+0.0064	586 - 593	1.9660	1.9520	1.955	2.6	1.9468	2.6	1.9068	2.5	101.6
Norway	(NKr)	7.3208	+0.0237	183 - 233	7.3470	7.2860	7.3064	2.4	7.2779	2.3	7.1662	2.1	95.2
Portugal	(Es)	175.790	+0.3	740 - 840	176.170	175.410	175.754	0.2	175.7	0.2	174.88	0.7	93.4
Spain	(Pta)	147.070	+0.315	020 - 120	147.850	146.880	147.025	0.4	146.95	0.6	145.675	0.9	76.7
Sweden	(SKr)	7.7324	+0.0125	268 - 381	7.7508	7.7068	7.7233	1.4	7.704	1.5	7.63	1.3	84.0
Switzerland	(SFr)	1.4579	+0.0083	575 - 582	1.4615	1.4520	1.4526	4.4	1.4419	4.4	1.3984	4.2	104.7
UK	(£)	1.6643	+0.0022	638 - 648	1.6680	1.6612	1.663	0.9	1.6602	1.0	1.6476	1.0	101.5
Ecu		1.1275	-0.0002	270 - 276	1.1295	1.1245	1.1269	-1.5	1.1321	-1.8	1.1477	-1.8	-
SDR†	-	0.71643	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0003	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0766	+0.0011	765 - 766	1.0768	1.0755	-	-	-	-	-	-	-
Canada	(C$)	1.3796	-0.0002	793 - 798	1.3805	1.3755	1.3754	2.7	1.3707	2.6	1.3501	2.1	84.2
Mexico	(New Peso)	7.9545	+0.002	520 - 570	7.9570	7.9400	8.063	-16.4	8.274	-16.1	9.1845	-15.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	103.6
Pacific/Middle East/Africa													
Australia	(A$)	1.3348	-0.0081	342 - 355	1.3364	1.3415	1.3346	0.2	1.334	0.2	1.3297	0.4	93.5
Hong Kong	(HK$)	7.7473	+0.0012	468 - 478	7.7480	7.7468	7.7478	-0.1	7.7487	-0.1	7.751	0.0	-
India	(Rs)	35.8500	-0.005	750 - 250	35.8250	35.7750	35.9375	-4.8	36.2225	-4.7	37.435	-4.6	-
Israel	(Shk)	3.5937	-0.0019	839 - 035	3.6270	3.5649	-	-	-	-	-	-	-
Japan	(Y)	114.430	-0.115	380 - 470	114.700	114.180	113.915	5.4	112.915	5.3	108.815	5.1	134.0
Malaysia	(M$)	2.5240	+0.0015	235 - 245	2.5245	2.5220	2.5285	-2.1	2.5375	-2.1	2.5675	-1.7	-
New Zealand	(NZ$)	1.4755	+0.0022	749 - 760	1.4760	1.4749	1.4763	-0.7	1.4787	-0.8	1.4869	-0.9	-
Philippines	(Peso)	26.3760	-0.009	500 - 020	26.4020	26.3500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	-	505 - 507	3.7507	3.7505	3.7513	-0.2	3.7523	-0.2	3.7589	-0.2	-
Singapore	(S$)	1.4298	+0.0006	293 - 303	1.4305	1.4285	1.4261	1.5	1.4243	1.5	1.4048	1.7	-
South Africa	(R)	4.5355	+0.0192	340 - 370	4.5370	4.5180	4.576	-10.7	4.6565	-10.8	4.958	-9.3	-
South Korea	(Won)	888.000	-	000 - 000	889.000	886.500	-	-	-	-	-	-	-
Taiwan	(T$)	27.8000	-0.02	800 - 200	27.8210	27.7800	27.811	-0.5	27.82	-0.3	27.9125	-0.4	-
Thailand	(Bt)	25.9050	+0.03	800 - 300	25.9800	24.1500	26.13	-19.4	26.455	-8.5	27.28	-8.3	-

† SDR rate per $ for Jun 27. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 27: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 30		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.44	16.33	4.847	1.844	4733	5.450	20.36	489.0	409.1	21.51	4.055	1.871	3.838	2.782	318.3	2.467
Denmark	(DKr)	54.22	10	8.854	2.628	1.000	2566	2.955	11.04	265.1	221.8	11.66	2.199	0.908	2.081	1.508	172.6	1.338
France	(FFr)	61.23	11.29	10	2.968	1.129	2898	3.337	12.47	299.4	250.5	13.17	2.483	1.023	2.350	1.703	194.9	1.511
Germany	(DM)	20.63	3.805	3.369	1	0.380	976.4	1.124	4.201	100.9	84.40	4.437	0.837	0.345	0.792	0.574	65.67	0.509
Ireland	(I£)	54.24	10.00	8.858	2.629	1	2567	2.956	11.04	265.2	221.9	11.67	2.200	0.907	2.081	1.508	172.6	1.338
Italy	(L)	2.113	0.390	0.345	0.102	0.039	100	0.115	0.430	10.33	8.644	0.454	0.086	0.035	0.081	0.059	6.725	0.052
Netherlands	(Fl)	18.35	3.384	2.998	0.889	0.338	868.4	1	3.738	89.72	75.06	3.947	0.744	0.307	0.704	0.510	58.40	0.453
Norway	(NKr)	49.11	9.057	8.020	2.380	0.905	2324	2.676	10	240.1	200.9	10.56	1.991	0.821	1.885	1.366	156.3	1.212
Portugal	(Es)	20.45	3.772	3.340	0.991	0.377	967.3	1.115	4.165	100	83.66	4.399	0.829	0.342	0.785	0.569	65.09	0.505
Spain	(Pta)	24.44	4.509	3.992	1.185	0.451	1157	1.332	4.978	119.5	100	5.258	0.991	0.409	0.938	0.680	77.81	0.603
Sweden	(SKr)	46.49	8.575	7.593	2.254	0.857	2200	2.534	9.488	227.3	190.2	10	1.885	0.777	1.784	1.293	148.0	1.147
Switzerland	(SFr)	24.66	4.548	4.027	1.195	0.455	1167	1.344	5.021	120.6	100.9	5.304	1	0.412	0.946	0.686	78.49	0.608
UK	(£)	59.83	11.04	9.771	2.900	1.103	2832	3.261	12.18	292.9	244.8	12.87	2.426	1	2.296	1.664	190.4	1.476
Canada	(C$)	26.06	4.806	4.256	1.263	0.480	1233	1.420	5.306	127.4	106.9	5.605	1.057	0.436	1	0.725	82.94	0.643
USA	($)	35.95	6.631	5.871	1.743	0.663	1702	1.959	7.321	175.9	147.1	7.732	1.458	0.601	1.380	1	114.4	0.887
Japan	(Y)	51.42	5.795	5.131	1.523	0.579	1487	1.712	6.396	153.6	128.5	6.757	1.274	0.525	1.206	0.874	100	0.775
Ecu	–	40.53	7.476	6.620	1.965	0.747	1919	2.209	8.254	198.2	165.9	6.719	1.644	0.677	1.556	1.128	129.0	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.5777	0.5789	+0.0013	0.5792	0.5756	33,580	71,709
Dec	-	0.5819	-	-	0.5808	129	960
Mar	0.5846	0.5846	-	0.5846	0.5846	3	127

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6934	0.6925	-0.0019	0.6950	0.6909	27,722	38,801
Dec	0.6984	0.6994	+0.0023	0.6995	0.6984	12	860
Mar	-	0.7184	-	-	0.7150	60	70

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.8828	0.8842	+0.0018	0.8860	0.8819	19,491	56,660
Dec	-	0.8956	+0.0007	0.8956	-	24	1,100
Mar	-	0.9114	-	-	-	3	107

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.6568	1.6596	-	1.6636	1.6578	7,073	53,963
Dec	-	1.6570	-	1.6570	-	180	581
Mar	-	1.6540	-	1.6530	-	1	2

UK INTEREST RATES

LONDON MONEY RATES

Jun 30	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 - 6	6⅝ - 6⅜	6¹¹⁄₁₆ - 6⅝	6¹³⁄₁₆ - 6¹¹⁄₁₆	7¹⁄₁₆ - 6¹⁵⁄₁₆	7⅜ - 7¼
Sterling CDs	-	-	6⅝ - 6½	6²⁵⁄₃₂ - 6²¹⁄₃₂	6³¹⁄₃₂ - 6²⁹⁄₃₂	7¼ - 7⅛
Treasury Bills	-	-	6⅝ - 6½	6¹³⁄₁₆ - 6¹¹⁄₁₆	-	-
Bank Bills	-	-	6¹³⁄₃₂ - 6¹¹⁄₃₂	6½ - 6²⁹⁄₃₂	6²⁹⁄₃₂ - 6¹¹⁄₁₆	-
Local authority deps.	6¼ - 6⅛	6½ - 6⅜	6¹⁵⁄₃₂ - 6¹³⁄₃₂	6¹¹⁄₁₆ - 6¹³⁄₁₆	6¹³⁄₁₆ - 6¾	7¹⁄₁₆ - 6¹⁵⁄₁₆
Discount Market deps	6¼ - 6⅜	6⅜ - 6¼	-	-	-	-

UK clearing bank base lending rate 6½ per cent from Jun 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¼

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Jun 27, 6.4200pc. ECGD fixed rate Stg. Export Finance. Make up day Jun 30, 1997. Agreed rate for period Jul 26, 1997 to Aug 25, 1997, Scheme III 7.98pc. Reference rate for period May 31, 1997 to Jun 30, 1997, Schemes IV & V 6.738pc. Finance House Base Rate 7pc from Jun 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	92.95	92.88	-0.06	92.95	92.89	20387	151720
Dec	92.79	92.72	-0.06	92.79	92.72	18343	112070
Mar	92.71	92.64	-0.06	92.72	92.63	17074	85471
Jun	92.68	92.62	-0.06	92.70	92.61	8335	60440
Sep	92.68	92.62	-0.06	92.69	92.61	5084	35199

Also traded on APT. All Open interest figs. are for previous day

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
9275	0.19	0.17	0.22	0.06	0.20	0.33
9300	0.05	0.07	0.12	0.17	0.35	0.48
9325	0.01	0.02	0.06	0.38	0.55	0.57

Est. vol. total, Calls 2860 Puts 2551. Previous day's open int., Calls 128077 Puts 122788

EMS EUROPEAN CURRENCY UNIT RATES

Jun 30	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.796709	0.748705	-0.004232	-6.26	9.71	42
Finland	5.85424	5.87612	+0.00184	0.37	2.46	-2
Portugal	197.398	198.884	-0.085	0.75	2.07	-5
Italy	1906.48	1923.35	-1.91	0.88	1.94	-8
Spain	163.826	166.486	+0.036	1.62	1.19	-11
Denmark	7.34565	7.50109	+0.00412	2.12	0.71	-15
Netherlands	2.16979	2.21790	+0.00319	2.22	0.61	-16
Germany	1.92573	1.97019	+0.0024	2.31	0.52	-23
Austria	13.5485	13.8631	+0.0188	2.32	0.50	-17
Belgium	39.7191	40.6526	+0.0485	2.35	0.48	-17
France	6.45863	6.64190	+0.00244	2.84	0.00	-24
NON ERM MEMBERS						
Greece	295.269	310.621	-0.189	5.20	-2.24	-
UK	0.793100	0.678570	-0.003053	-14.44	20.20	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
1.650	1.75	2.51	2.85	0.48	1.36	1.92
1.660	1.12	1.91	2.38	0.85	1.80	2.38
1.670	0.67	1.48	1.91	1.40	2.38	2.89

Previous day's vol., Calls 200 Puts 619 . Prev. day's open int., Calls 23,388 Puts 30,141

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
0.570	0.74	1.11	1.40	0.14	0.41	0.55
0.575	0.42	0.81	1.10	0.32	0.60	0.75
0.580	0.21	0.59	0.84	0.59	0.83	1.01

Previous day's vol., Calls 365 Puts 1,100 . Prev. day's open int., Calls 9,622 Puts 20,317

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.14	94.14	-	94.15	94.14	59,971	577,352
Dec	93.96	93.93	-0.02	93.95	93.93	57,729	434,582
Mar	93.86	93.83	-0.03	93.86	93.83	52,513	296,419

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.83	94.82	-	94.83	94.82	148	7,392
Dec	-	94.65	-	94.65	94.65	1	437

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
9675	0.07	0.08	0.09	0.08	0	0.01	0.02	0.11
9700	0	0	0.01	0.02	0.18	0.18	0.19	0.30
9725	0	0	0	0	0.43	0.43	0.43	0.53

Est. vol. total, Calls 783 Puts 2515. Previous day's open int., Calls 343730 Puts 245186

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
9850	0.13	0.14	0.19	0.16	0.34	0.48
9875	0.04	0.06	0.09	0.32	0.51	0.63

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3025 Puts 3255

BASE LENDING RATES

	%		%		%
Adam & Company	6.50	Duncan Lawrie	6.50	Scottish Widows Bank	6.50
Allied Irish Bank (GB)	6.50	Exeter Bank Limited	7.50	●Singer & Friedlander	6.50
●Henry Ansbacher	6.50	Financial & Gen Bank	7.50	●Smith & Williamson Secs	6.50
Bank of Baroda	6.50	●Robert Fleming & Co	6.50	TSB	6.50
Banco Bilbao Vizcaya	6.50	●Guinness Mahon	6.50	United Bank of Kuwait	6.50
Bank of Cyprus	6.50	Habib Bank AG Zurich	6.50	Unity Trust Bank Plc	6.50
Bank of Ireland	6.50	●Hambros Bank	6.50	Western Trust	6.50
Bank of India	6.50	Heritable & Gen Inv Bk	6.50	Whiteaway Laidlaw	6.50
Bank of Scotland	6.50	C. Hoare & Co	6.50	Yorkshire Bank	6.50
Barclays Bank	6.50	Hongkong & Shanghai	6.50		
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.50	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	6.50	Julian Hodge Bank	6.50	* In administration	
Citibank NA	6.50	●Leopold Joseph & Sons	6.50		
Clydesdale Bank	6.50	Lloyds Bank	6.50		
The Co-operative Bank	6.50	Midland Bank	6.50		
Coutts & Co	6.50	NatWestminster	6.50		
Cyprus Popular Bank	6.50	●Rea Brothers	6.50		
		Royal Bk of Scotland	6.50		

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GCE
GERMAN CITY ESTATES N.V.
On 21 May 1997 and 12 June 1997, the general meeting of shareholders of the public limited liability company German City Estates N.V., with statutory seat in, and office address at, (1017 DV) Amsterdam, Johannes Vermeerplein 5, ("the Company"), has resolved to change the name of the Company to:
EUROPEAN CITY ESTATES N.V.
The deed of amendment of the articles of association of the Company with respect to the change of the name was executed on 26 June 1997. The AEX Effectenbeurs N.V. is requested to amend the listing on the AEX as per 8 July 1997.
In connection with the amendment the CE-certificates and the K-certificates of the Company must be offered to ING Bank, P.O. Box 1800, 1000 BV Amsterdam on 8 July 1997 for the purpose of providing the certificates with a stamp from which the change of the name of the Company appears.
Amsterdam, 1 July 1997

BANQUE NATIONALE DE PARIS
[illegible]
BNP

BANQUE NATIONALE DE PARIS
[illegible]
BNP

COMMODITIES AND AGRICULTURE

El Niño floods and drought threaten crops

By Gary Mead

Drought in some of the world's leading commodity-producing countries and flooding in others could lead to sharp increases in prices of agricultural commodities over the next few months.

Scientists fear severe climatic disruptions from the latest developing El Niño weather pattern – a periodic warming of the tropical Pacific Ocean by a few degrees that reverberates globally.

"We're seeing a major El Niño development in the central Pacific region and we're certain that it will be as big as anything in the last 50 years," said Mr Ants Leetmaa, director of the Climate Prediction Centre for the National Weather Service, part of the US National Oceanic and Atmospheric Administration. "The only thing we're not sure about is if it will be the biggest, or simply one of the top three of the past five decades."

The economic consequence for nations dependent on the production and export of essential commodities – such as sugar, cocoa, coffee and tea – could be enormous, according to Mr Leetmaa and other US scientists monitoring climatic change.

NOAA's report for this year's El Niño forecasts "increased rainfall across the southern regions of the US and in Peru, sometimes resulting in destructive flooding; and drought in north-east Brazil, south-eastern Africa, and the west Pacific".

Many of these areas are leading producers of sugar, and some commodity analysts believe that sugar crops could decline by as much as 20 per cent next year. Thailand's Cane Sugar Board has forecast a fall of between 10 per cent and 15 per cent in the country's sugar production for 1997-98 – 5m tonnes against 5.7m tonnes this year – as a result of drought.

Some effects of the latest El Niño are already being felt. Kenya's tea crop is down at least 20 per cent as a result of drought, which has also severely affected Jamaican agriculture. Australia has forecast that drought will cut the value of its agricultural exports by 5 per cent in 1997-98.

Mr José Carval, president of Ecuador's National Cocoa Exporters Association, said: "If this current El Niño phenomenon continues, producing heavy rains, then damage to the Christmas crop is expected." Peru has declared a state of emergency in nine out of its 24 regions, in preparation for El Niño-related disasters expected later this year.

"It's very difficult to look forward and precisely predict what the effect of this latest El Niño will be," said Mr Roger Pielke, a scientist at the Environmental and Societal Impacts Group, part of the National Centre for Atmospheric Research at Boulder, Colorado.

Gold sinks to four-year low

MARKETS REPORT

By Michael Peel in London and Laurie Morse in Chicago

Gold plumbed its lowest depths for more than four years as south-east Asian markets weakened. The morning gold fixing of $334.05 a troy ounce was the lowest since March 30 1993. It closed in London at $334.10, down $2.80.

There was evidence of increased hedging in Australian markets at the end of the country's financial year. Meanwhile demand was softer in India and Pakistan.

Ms Rhona O'Connell, analyst for T. Hoare & Co, said: "Some of the merchandisers in Hong Kong bought too much, in anticipation of increased demand for the handover, which hasn't materialised." Physical demand was also low because dealers were holding up for the end of the meeting of the Federal Open Market Committee tomorrow, she added.

The contango for zinc improved to $5 a tonne from Friday's $¼ a tonne, but the market remained in a long-term deficit.

August Brent crude oil reached a daily high of $18.45 a barrel on news of a likely delay to Iraqi oil exports. It slipped back to trade at $18.35 in late London trading.

On the London financial futures exchange coffee recovered from early losses, with the September contract closing up $14 at $1,797. Traders said the rally followed a forecast from Brazil that polar air, due to pass the coffee area on the evening of July 5, could be the greatest frost threat this year.

Soyabean futures at the Chicago Board of Trade tumbled to double-digit losses early on Monday, after the US Department of Agriculture said farmers had sowed 70.85m acres with soyabeans – 2m more than the government's March estimate, and well above trade estimates.

Given the nearly ideal conditions for soyabeans across the Midwest in recent weeks, the larger acreage will produce a far larger crop, analysts said. The bigger plantings figures were offset somewhat by news that existing stocks are dwindling faster than expected.

Soyabean futures for November delivery, the first for the new crop, tumbled 30 cents a bushel, the largest allowable limit at the CBOT, to $6.17½. That contract has lost nearly a third of its value since it hit $9 earlier this year.

Bitter fate faces Philippine sugar

Justin Marozzi

The last crisis devastated the livelihood of 56,000 families

The ailing Philippine sugar industry is a bundle of nerves. Victorias Milling, its flagship and the largest sugar refiner in Asia, is facing foreclosure on its debts after failing to reach agreement with creditors. The fate of the company will affect the whole sector.

Victorias announced in March that it was unable to service loans totalling 6.1bn pesos ($232m). The cash-strapped Leviathan now needs a capital injection of about 2.5bn pesos ($95m) if it is to survive. "If we collapse, the industry goes with us because we're the biggest in the game," said one company official. "This is probably our last chance."

Crises are nothing new to the country's sugar business. In 1985, the province of Negros Occidental, where 56,000 families are dependent on the crop for their livelihood, was devastated by falling world prices and a resulting economic decline which brought severe malnutrition and a rash of violent killings in its wake.

With the help of a cyclical upturn in prices, it bounced back – but this time the threat is no longer temporary. The industry in the Philippines is highly uncompetitive – and has yet to find a convincing answer to global competition. Sugar from neighbouring Thailand is half the price of that produced locally, even after import tariffs of 100 per cent.

Last year, the Philippines, once the world's fourth largest sugar exporter, became a net importer of more than 1m tonnes and this year expects to import 300,000 tonnes. Planters blame the government for the present woes.

In an industry fighting for survival, Mr Manuel Lamata, head of a leading sugar association, is one of the more combative voices around. During a recent trip to the presidential palace in Manila, he challenged a member of a rival federation to a fist-fight. He accuses the administration of making a fundamental mistake during negotiations over sugar tariffs in the 1994 Uruguay Round world trade accord. The country, he says, gave away too much by committing to reduce tariffs from 100 to 50 per cent by 2003. This compares to Thailand's projections of cutting back from 104 to 94 per cent and Indonesia from 110 to 95 per cent.

"All we're asking for is a level playing field with Malaysia, Indonesia and Thailand," he says. "Otherwise we'll be swamped with cheap imports. As far as we're concerned, the government sold us down the drain. It shows stupidity and utter ignorance of what would happen in our economy and agriculture."

The government accuses producers of manipulating the figures, endless infighting, over-reliance on state support and, more seriously, a failure to modernise and invest in new equipment. Planters point to the damaging effects of a land reform programme which works against fresh investment by discouraging banks from lending to landowners and creating economically unviable plots of less than five hectares.

Relations between the two sides, however, warmed in February after the National Food Authority intervened in purchase sugar and prop up prices. They now stand at 610 pesos per 50kg, compared with a low last year of 480 pesos.

However, there are positive signs ahead. With an economy growing at 6 per cent and rising domestic consumption – this year it will hit 2.1m tonnes against an estimated production of 1.8m tonnes – moves towards increased mechanisation and investment have a ready market.

Mr Rafael Coscolluela, governor of Negros Occidental, is optimistic the sugar industry will again prove resilient. Signs it is beginning to adapt to global competition include the trend for large sugar mills, such as Hawaiian Philippine, which increase productivity by running sugar plantations themselves either by leasing or purchasing land.

"You can't have a sugar industry without sugar mills and they're showing every intention of staying," Mr Coscolluela argues. "Recently, there has been heavy investment, upgrading crushers, replacing boilers and so on. I have no doubt the industry will survive. Let's put it this way, we can't afford for it not to."

Justin Marozzi

India considers coffee imports

By Kunal Bose in Calcutta

India may allow the import of coffee beans, in an attempt to force down the retail price of coffee in the country.

Coffee prices in India have been rising in line with the world rally in futures contracts, which was sparked by a volatile mixture of tight supply, low stocks and fear of frost in Brazil.

However, while the international rally has seen peaks and troughs, Indian prices have kept climbing, fuelled by the suspension of local auctions.

Nearly 80 per cent of India's coffee production is for export, but the government allows the import of decaffeinated and roasted coffee in the "event of domestic scarcity".

Trade officials say discontent over tha high prices in southern India is causing concern to local administrations. The parties in power in Tamil Nadu, Karnataka, Kerala and Andhra Pradesh states are constituents of the country's United Front government, and they have asked for help.

Since February, the retail price of Arabica coffee powder has risen from Rs110 a kg to Rs220 ($6). Trade officials predict more rises as growers are dictating the prices of coffee beans.

The Indian Coffee Traders Association stopped holding auctions in March, in protest at a 3 per cent turnover tax imposed by the Karnataka government. Mr Vijay Dudeja, chairman of Paramount, a trading house, said tha lack of auctions had caused distortions in the market.

The government intends to rein in domestic prices only after a sub-committee set up by the Coffee Board has submitted its report.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1568.5-69.5	1590-91
Previous	1545-6	1567-8
High/low		1596/1576
AM Official	1560-61	1584.5-5.0
Kerb close		1597.5-98.0
Open int.	115,027	
Total daily turnover	262,850	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1425-35	1450-60
Previous	1425-35	1450-60
High/low		1460/1450
AM Official	1426-8	1450-2
Kerb close		1450-60
Open int.	5,226	
Total daily turnover	1,506	

■ LEAD ($ per tonne)

Close	614.5-15.5	627-28
Previous	612-3	626-7
High/low	615/614	629/626
AM Official	614-5	627.5-8.0
Kerb close		626-28
Open int.	34,931	
Total daily turnover	10,348	

■ NICKEL ($ per tonne)

Close	6750-60	6860-65
Previous	6840-50	6950-55
High/low		6910/6760
AM Official	6785-90	6905-10
Kerb close		6860-70
Open int.	52,806	
Total daily turnover	27,727	

■ TIN ($ per tonne)

Close	5520-30	5570-80
Previous	5500-10	5550-60
High/low		5580/5565
AM Official	5525-30	5570-75
Kerb close		5565-75
Open int.	13,681	
Total daily turnover	2,929	

■ ZINC, special high grade ($ per tonne)

Close	1414-15	1419.5-20.5
Previous	1407-8	1416-7
High/low		1428/1415
AM Official	1422-23	1427.5-8.0
Kerb close		1418-19
Open int.	97,365	
Total daily turnover	32,487	

■ COPPER, grade A ($ per tonne)

Close	2564-69	2421-22
[illegible]	[illegible]	[illegible]

■ LME AM Official £/$ rate: 1.6665

LME Closing £/$ rate: 1.6645

■ HIGH GRADE COPPER (COMEX)

[illegible]						

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

[illegible]		

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

[illegible]						

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]						

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]						

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]						

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

[illegible]						

■ CRUDE OIL IPE ($/barrel)

[illegible]						

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

[illegible]						

■ GAS OIL IPE ($/tonne)

[illegible]						

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]						

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

[illegible]						

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

[illegible]						

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]						

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]						

■ BARLEY LIFFE (100 tonnes; £ per tonne)

[illegible]						

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]						

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]						

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]						

■ POTATOES LIFFE (20 tonnes; £ per tonne)

[illegible]						
Mar	59.0	-1.0	-	-	-	-
Apr	86.0	-1.6	72.0	66.0	61	624
May	70.0	-1.6	-	-	-	-
Jun	80.0	-1.6	-	-	-	-
Total					61	835

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Jun	1300	+5	1300	1300	7	405
Jul	1290	-5	1295	1275	51	1,276
Aug	1254	+4	1260	1240	0	598
Oct	1419	+10	1419	1419	6	910
Jan	1420	-	1420	1420	5	122
Total					76	3,316

	Close	Prev
BFI	1320	1311

FUTURES DATA

All futures data supplied by CMS.

Tea

There was fair demand for tea, The Tea Brokers' Association reports. In landed teas, coloury medium East Africans lost 6 pence to 5 pence, while other mediums declined 4 pence to 6 pence with some withdrawals; plainer central Africans remained steady. Offshore there was more demand at firm to dearer rates. Quotations for this sale. Landed: best available 135p; good N/A; good medium 128p; medium 120p; low medium 88p. The highest price realised this week was 135p for a Ceylon BOP.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1132	+8	1131	1115	4,478	15,065
Sep	1150	+6	1151	1135	8,111	33,208
Dec	1149	+6	1150	1135	636	34,842
[illegible]						

■ COCOA CSCE (10 tonnes; $/tonne)

[illegible]						

■ COCOA (ICCO) (SDR's/tonne)

[illegible]						

■ COFFEE LIFFE ($ tonnes; $/tonne)

[illegible]						

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]						

■ COFFEE (ICO) (US cents/pound)

[illegible]						

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

[illegible]						

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]						

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]						
Oct	76.42	-0.14	76.60	76.00	1,530	11,554
Dec	77.12	-0.28	77.39	76.75	7,896	41,440
Mar	78.35	-0.10	78.50	77.95	1,460	7,131
May	78.90	-0.10	78.90	78.90	57	1,460
Jul	79.15	+0.10	79.10	78.75	14	579
Total					11,985	68,736

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jul	72.55	+0.20	73.40	71.75	2,094	4,020
Sep	76.40	+0.90	76.80	75.50	1,464	15,108
Nov	79.00	+0.90	80.90	78.50	329	5,989
Jan	82.30	+1.00	83.00	81.30	57	2,405
Mar	86.00	+0.65	85.95	84.75	24	1,605
May	87.70	+0.35	86.75	86.10	1	319
Total					3,966	32,489

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jun 30	Jun 27	month ago	year ago
1935.5	1969.9	2009.4	2008.4

■ CRB Futures (Base: 1967 = 100)

Jun 27	Jun 26	month ago	year ago
238.33	239.40		

■ GSCI Spot (Base: 1970 = 100)

Jun 27	Jun 26	month ago	year ago
184.17	182.53	196.41	204.27

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-2,575	to	671,825
Aluminium alloy	-240	to	59,580
Copper	+250	to	125,150
Lead	+400	to	116,050
Nickel	-252	to	52,380
Zinc	+1,875	to	424,050
Tin	-60	to	11,755

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	64.450	-	65.000	64.150	4,959	43,160
Oct	67.875	+0.15	68.425	67.850	2,074	24,896
Dec	70.850	+0.675	71.350	70.225	1,085	12,590
[illegible]						

■ LEAN HOGS CME (40,000lbs; cents/lbs)

[illegible]						

■ PORK BELLIES CME (40,000lbs; cents/lb)

[illegible]						

LONDON TRADED OPTIONS

[illegible]				

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline; Gas Oil; Heavy Fuel Oil; Naphtha; Jet fuel; Diesel

■ NATURAL GAS (Pence/therm)

Bacton; Petroleum Argus

■ OTHER

Gold; Silver; Platinum; Palladium; Copper; Lead; Tin (Kuala Lumpur); Tin (New York); Cattle; Sheep; Pigs; Lon. day sugar; Lon. day sugar; Barley; Maize; Wheat; Rubber; Rubber; Rubber; Coconut Oil; Palm Oil; Copra; Soyabeans; Cotton; Wooltops

[illegible]		

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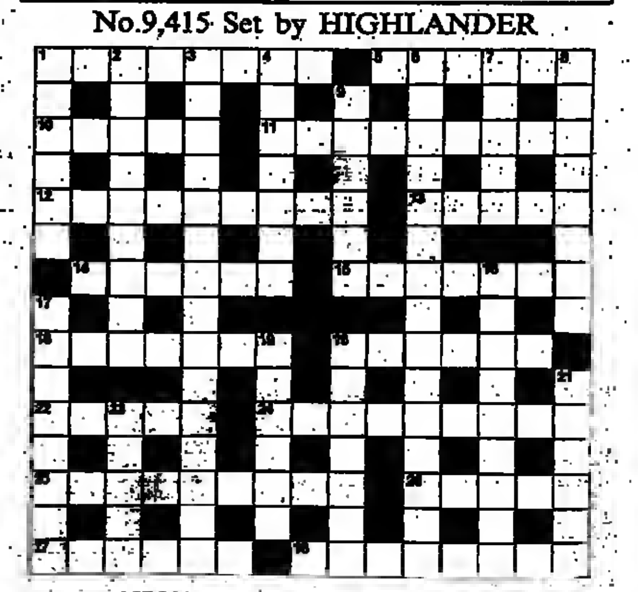

ACROSS

1 Conductor for musical work on the Rock (8)
5 Not as many working class (6)
10 Chew slice of meat containing original piece of mutton (5)
11 Craving publicity prior to speech (9)
12 Potentially successful one to join in chorus after concert (9)
13 Physical strength expressed as something very small (5)
14 Settled on some form of prayer (6)
15 Be evasive – it's usual before a deal (7)
18 Ten fuddled with drink twist together (7)
20 Full of energy in Golden Boy – the musical (6)
22 It can be transplanted during treatment for gangrenous tissue (5)
24 Where synonyms are thus anagrammatised in front of us? (9)
25 By the way it's wrong for Nonconformist (9)
26 First guillotined private (5)
27 Energetic person in party holding many back (6)
28 Could be tops – they're some bowlers! (8)

DOWN

1 Take up space to live in (6)
2 Income so complicated beginning to tax financial expert (9)
3 Work required for Frenchman completing one of these? (11,4)
4 Old town like Winchester can shroud parent in obscurity (7)
6 English cross – intercourse brings about religious ban (15)
7 Spill the beans about western style of music (5)
8 Part of century – changes seen in it (8)
9 A daughter gets older – Proverbs (6)
16 Produced in natural conditions at large tract of land (4-5)
17 Crooked group of pupils caught in the act (8)
19 Necessitate English and Latin translation (6)
20 Old dance number put on stage (3-4)
21 Takes over university spurs after reorganisation (6)
23 Make progress, for example turning over more than two thousand pounds (3,2)

Solution to Saturday's prize puzzle on Saturday July 12.
Solution to yesterday's prize puzzle on Monday July 14.

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IRELAND (SIB RECOGNISED)

The Financial Times plans to publish a Survey on

World Economy & Finance

on Friday, September 19

This survey is published to coincide with the IMF & World Bank meetings.

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or Tim Hart in New York

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FT Surveys

IRELAND (REGULATED)(**)

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American Phoenix Investment Portfolios (u)

[illegible]

Foreign & Colonial Portfolios Fd Sicav(u)

[illegible]

Nikko Global Umbrella Fund

[illegible]

Aetna International Umbrella Fund - Contd.

[illegible]

Emerging Markets Brewery Fund SICAV

[illegible]

The European Asset Value Fund

[illegible]

Fidelity Investment (CI) Ltd

[illegible]

The First Korea Smaller Companies Fund

[illegible]

Merrill Lynch Asset Management - Contd.

[illegible]

Monterey Trust SICAV

[illegible]

Morgan Stanley Sicav

[illegible]

Swiss Bank Corporation - Contd.

[illegible]

TCW Luxembourg Funds

[illegible]

Equity Fund Managers

[illegible]

Eurolife Assurance Group

[illegible]

Finance International Ltd

[illegible]

OFFSHORE INSURANCES

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LUXEMBOURG (REGULATED)(**)

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OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BREWERIES, PUBS & REST

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BUILDING & CONSTRUCTION

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

BUILDING MATS. & MERCHANTS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

CHEMICALS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

CHEMICALS - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

DISTRIBUTORS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

DIVERSIFIED INDUSTRIALS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ELECTRICITY

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ELECTRONIC & ELECTRICAL EQPT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ENGINEERING

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ENGINEERING - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

The Financial Times plans to publish a Survey on

Lebanon

on Tuesday, September 9

For further information, please contact:

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FT Surveys

ENGINEERING - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

ENGINEERING, VEHICLES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

EXTRACTIVE INDUSTRIES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

EXTRACTIVE INDUSTRIES - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

FOOD PRODUCERS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

GAS DISTRIBUTION

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

HEALTH CARE

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

HEALTH CARE - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

HOUSEHOLD GOODS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

INSURANCE

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

INSURANCE - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

INVESTMENT TRUSTS

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]								

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]								

INV TRUSTS SPLIT CAPITAL

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]								

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TEXTILES & APPAREL - Cont.

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

For the bigger picture, see page 5.

HSBC Asset Management

Member HSBC Group

WORLD CLASS PERFORMERS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAV's) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- − Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- § Forecast dividend yield: p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

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LONDON STOCK EXCHANGE

Pre-Budget nerves drive share prices lower

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Pre-Budget nerves continued to weigh on London's equity market yesterday, leaving share prices lower across a broad front. And a weak opening performance by Wall Street triggered additional nervousness in London, as the Dow Jones Industrial Average fell over 50 points shortly after US trading commenced.

The US market's decline came in the wake of a strong Chicago purchasing managers' report for June, which was interpreted as a good indicator of the National Association of Purchasing Managers report for the same month. A sharp rise in US new home sales in May contributed to the weak showing of US markets.

Those numbers provided a further nagging worry for the equity market ahead of Wednesday's meeting of the US Federal Reserve's Open Market Committee. "No one expects the Fed to lift US rates but everyone will be relieved when the meeting is over," said one senior marketmaker.

The FTSE 100 finished the session a shade above the day's low, closing 35.7 off at 4,604.6. The weak end to the day was in sharp contrast to a buoyant opening performance which saw the FTSE 100 up over 22 points, helped by a strong close on Wall Street on Friday and a feeling that the market had discounted much of any bearish Budget news. The FTSE 250 slipped 14.78 to 4,431.3 and the SmallCap 7.9 to 2,225.2.

It was not only the worries about Wednesday's Budget that cast a shadow over the market. Sterling extended its powerful showing and the market also had to cope with increasing fears that another rise in UK interest rates will follow the Monetary Policy Committee meeting on July 10.

There was more evidence yesterday of a stronger-than-expected UK economy. May consumer credit and MO money supply came in higher than forecast, adding to calls for a UK rate rise after next week's meeting.

Turnover in equities, as expected so close to the Budget, was slightly disappointing, reaching a lower-than-usual 807.8m shares at the 6pm cut-off point.

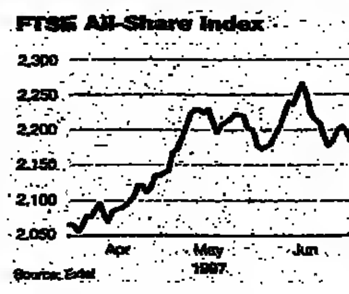
A senior marketmaker at one of the big European securities houses described the London market as "walking on eggshells; the Budget stories are pulling the market in both directions, the majority on the downside".

Another trader said London was looking "weary". The Sunday papers have injected an element of uncertainty and none of the big funds want to deal ahead of the Budget, he said.

The continued strength of sterling – the Bank of England's sterling index pushed up again to touch 103.2 at one point yesterday, its highest since April 1991 – was another cause for concern.

The strategy team at BZW pointed out the equity market "badly needs a Budget to soften sterling". It said "the current level of sterling will be flushing out more downgrades". BZW noted that while there has been little change in sterling against the dollar, the sterling/D-Mark rate has strengthened a further five per cent since the end of March.

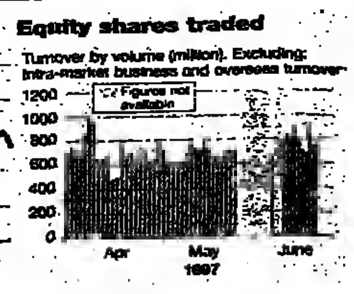
FTSE All-Share Index



Source: Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4604.6	–35.7
FTSE 250	4431.3	–14.7
FTSE 350	2228.0	–15.4
FTSE All-Share	2184.52	–14.55
FTSE All-Share yield	3.56	3.53
FT 30	2985.6	–17.7
FTSE Non-Fins p/e	18.51	18.67
FTSE100 Fut Sep	4606.0	–55.0
10 yr Gilt yield	7.14	7.08
Long gilt/equity yld ratio	2.02	2.02

Best performing sectors

1 Diversified Inds ....+1.2
2 Household Goods ....+0.9
3 Electronic & Elec ....+0.5
4 Water ....+0.3
5 Retailers: Food ....+0.2

Worst performing sectors

1 Gas Distribution ....–3.3
2 Retailers: General ....–1.3
3 Insurance ....–1.3
4 Oil: Integrated ....–1.3
5 Life Assurance ....–1.2

US funds buy Reckitt

By Peter John and Martin Brice

Reckitt & Colman moved forward 11½ to 895½p in response to active buying of health and household stocks in the US late on Friday.

The company said that upwards of 15 per cent of the shares are now held by US investors with the bulk – 8 per cent – owned by Capital Corp. And funds are increasingly noting the valuation differential between US and UK stocks. Reckitt cites its principal US rival Clorox which, its says is on a historic p/e of around 25 compared to 17 times earnings for Reckitt.

SmithKline Beecham gained 8 to £11.05¼ after hitting a year high of £11.15, and Glaxo-Wellcome was a penny firmer at £12.40p. Zeneca also registered a new year high of £20.15 but slipped back in late trading to close 9 lower at £19.86.

Halifax up

Halifax shot up just before the close of trading. Yesterday marked the end of the financial quarter and the day on which portfolios will be evaluated. Fund managers' fees will be based on closing valuations and there was some suggestion of a disappointing couple of weeks.

There were also suggestions that Halifax might be lining up a merger with one of the other recently floated financials and would benefit from wide-scale rationalisation and cost savings. Those rumours were not widely appreciated however, particularly in the light of the recent rejection by the trade and industry secretary of the attempt by Bass to take over Carlsberg-Tetley.

Earlier, NatWest Securities reduced its stance on the stock to "reduce" from "hold". It said the move was purely on valuation grounds and it had not changed earnings estimates for the bank.

The stock was down 5 at one stage and ended the day a net 11½ up at 773p with 13m traded.

RBoS weak

An overhang of stock and rumours of a fund-raising exercise sent Royal Bank of Scotland spinning down 22½ to 559½p.

Dealers said SBC Warburg was left holding a line of 1m shares in a market where the appetite to buy had been undermined by the US market's volatility and the UK's pre-Budget nerves.

There was also some speculation, albeit widely dismissed, that RBoS was seeking to raise cash ahead of an acquisition.

Barclays also suffered a setback, falling 33 to £11.92 on weekend press reports about a possible bid for NatWest. NatWest was up for much of the day but ended a net 3 lower at 807¼p.

Lonrho gave up 4 to 127¼p after it confirmed it had ended merger talks with JCI, the South African mining group.

BTR put on 6¼ to 205½p on renewed chat that a break-up of the company would produce £3bn more than current market value.

Scottish & Newcastle ended its good run of the past few days and was off 4½ to 648½p when it ran into profit-taking after reporting results in line with expectations.

Bass eased 2 to 733p following Friday's blocking by the government of its takeover of Carlsberg-Tetley. Allied Domecq, from which Bass bought its half of Carlsberg-Tetley, eased to 431½p.

There have been suggestions that Bass may now try to expand market share by acquiring one of the regional brewers, which provided some of the brewery sector's few gains. Gibbs Mew was up 1½ to 263p, Greene King 2 to 672½p, Marston, Thompson & Evershed 2 at 265p, JD Wetherspoon 2¾ to 362½p, and Whitbread 3¼ to 758½p. However, one trader said a hostile bid for a regional brewer would probably be blocked by the government.

There was gloom among the retail sector ahead of the Budget tomorrow with traders expecting measures to damp consumer spending. Kingfisher was off 14 to 682p, Dixons 11 to 487p, Austin Reed 6 to 219p and Blacks Leisure 2½ to 455p.

The chance that the Budget might abolish mortgage interest tax relief and damage the property market hit sentiment in Hambros Countrywide, down 2 before firming to close at 118½p, John D Wood, down 2 to 143½p, Chesterton, down 1½ to 57½p, and Savills, down 2½ to 110p.

Country Casuals was up 14 to 126½p on renewed bid talk.

Bridon, the wire rope and lifting systems company, jumped 29½ to 135½p after it confirmed a weekend press report that it was in talks over a possible offer from FKI, off 3 at 170p. Bridon is worth about £100m.

GEC rose 4 to 359p ahead of results next Tuesday with a note from NatWest Securities suggesting worries over currency have been overdone.

Still on the currency front, British Airways was off 11 to 684½ on fears of the escalating industrial dispute. Goldman Sachs has told clients that strong sterling remained a problem for the airline, and "much depends on the outcome of the BA/American Airlines talks", although it rates the stock as a "market performer". NatWest Securities also reiterated its "add" stance on BA.

Building materials group Caradon was the subject of a positive note from Goldman Sachs, which raised its rating from "market performer" to "market outperformer" after a meeting with the company on Friday. However, the shares eased 3½ to 201½p.

BP was firmer on balance at 746½p as BZW raised its recommendation on the stock to "buy" from "hold". The broker advised investors to switch out of Shell Transport, which fell 11¼ to 409½p following a share split.

United News & Media dropped 18 to 696½p on concerns that the broadcast and newspaper group may have overpaid for HTV.

The company announced on Friday it had agreed to take over the Wales and West of England broadcaster in a deal valuing HTV at £371m. United offered 420p a share for HTV and lifted its stake in the company from just under 30 per cent to a controlling 51 per cent. HTV which soared 82.5p on Friday, dipped 2½p to 412½p.

BSkyB extended recent heavy falls as one newspaper highlighted a potential threat to revenues. A report said the ITC, the television watchdog, might outlaw the system of compelling subscribers to buy additional programming with their chosen subscription channels.

The shares, which have tumbled more than 25 per cent over the past fortnight on concern about the loss of executives and the forced sale of a stake in a digital terrestrial television venture, fell 13¼ to 440p.

FT 30 INDEX

	Jun 30	Jun 27	Jun 26	Jun 25	Jun 24	Yr ago	*High	*Low
FT 30	2985.6	3003.3	3014.4	2997.2	2976.5	2729.7	3077.4	2668.8
Ord. div. yield	3.70	3.67	3.66	3.67	3.70	4.06	4.22	3.56
P/E ratio net	17.95	18.07	18.12	18.07	17.96	18.12	18.64	15.80
P/E ratio nil	17.78	17.89	17.94	17.88	17.78	18.03	18.45	15.71

FT 30 since compilation: high 3077.4 13/06/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3006.8	3012.4	3001.3	2999.7	3005.0	3004.8	3002.4	2996.9	2985.7	3014.2	2984.3

	Jun 30	Jun 27	Jun 26	Jun 25	Jun 24	Yr ago
SEAQ bargains	51,090	46,352	48,450	51,094	48,380	28,760
Equity turnover (£m)†	-	NA	3012.7	2727.0	3012.7	1977.1
Equity bargains†	-	NA	49,207	42,189	45,196	31,742
Shares traded (mil)†	-	NA	744.4	809.8	790.0	646.1

†Excluding intra-market and overseas turnover but including Crest turnover.

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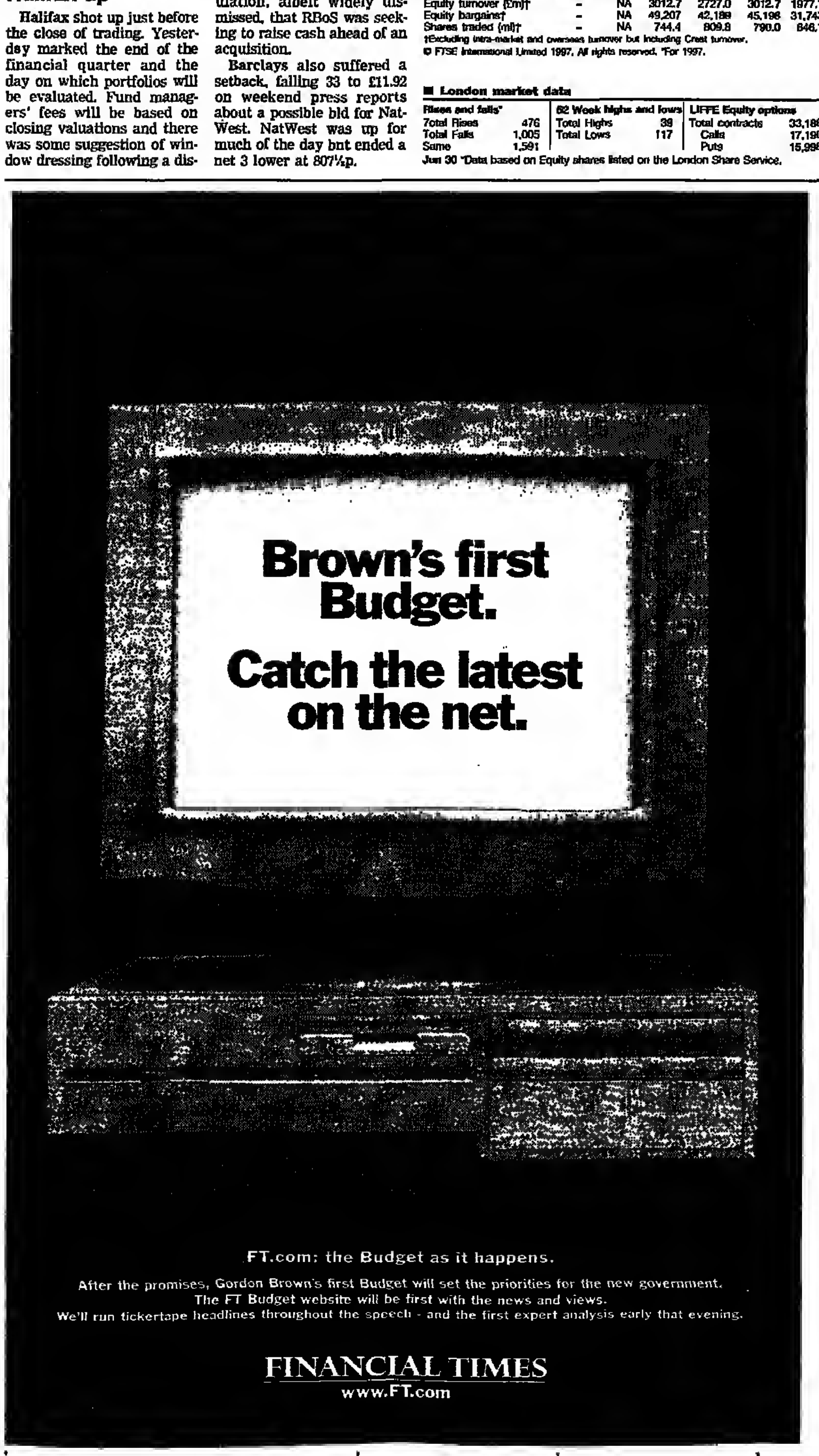
London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	476	Total Highs	39	Total contracts	33,188
Total Falls	1,005	Total Lows	117	Calls	17,190
Same	1,591			Puts	15,998

Jun 30 *Data based on Equity shares listed on the London Share Service.



FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4662.0	4606.0	-55.0	4685.0	4601.0	11696	62720
Dec	4745.5	4663.5	-55.0	4748.0	4663.5	502	2757
Mar		4700.0	-55.0			0	1

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		4503.0	-13.0			0	7108

■ FTSE 100 INDEX OPTION (LIFFE) (*4603) £10 per full index point

	4450 C	4450 P	4500 C	4500 P	4550 C	4550 P	4600 C	4600 P	4650 C	4650 P	4700 C	4700 P	4750 C	4750 P	4800 C	4800 P
Jul	189½	39½	146	54	112½	71½	84½	93½	61½	121½	42	153½	29	193	18½	235
Aug	208½	69½	172½	83½	143	104	112½	125	89	152	67½	180½	50	214½	36	251½
Sep	241	81	208	99	177	119½	148	140½	121	168	98½	195½	78½	235½	62	261½
Oct	268	98½	234	117½	203½	137	172½	157	147	183	124	211½	101	240½	82½	274½
Dec†			301	136			236	174			183½	228½			134½	284

Calls 1,917 Puts 1,824

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4425 C	4425 P	4475 C	4475 P	4525 C	4525 P	4575 C	4575 P	4625 C	4625 P	4675 C	4675 P	4725 C	4725 P	4775 C	4775 P
Jul	198	33½	160½	45½	125½	61	95	80	69½	104½	49½	134½	34½	169	23	207½
Aug	223½	61	188	75½	156	93	126	112½	100	136	77½	163	58½	194	43½	228
Sep	255½	77	221	92	189½	109½	160	129½	132½	151½	108	176	87½	205	69½	236
Dec	340½	109			272½	138			214	176½			163	223		
Mar†	393½	131			330	163			271	199½			218½	242½		

Calls 6,257 Puts 7,699 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	95.9	1200	782½	Aston Villa	837½		R8.8	1.8	1.3	46.0
§150	F.P.	30.5	152½	149½	AIT	150½		L1.38	3.9	1.1	28.3
	F.P.	15.9	102	42½	Caradon 8	98½	+18½	-	-	-	-
*	F.P.	2.02	26	25	†Euro Mining Fin	25		-	-	-	-
§2.5	F.P.	3.25	3¼	3	Groomont Hldgs	3¼		-	-	-	-
§-	F.P.	0.90	¾	½	Groomont Hld Wrt	¾	+¼	-	-	-	-
§140	F.P.	11.2	147½	98½	Heart of Midlthn	110½		-	-	-	-
§120	F.P.	10.3	127½	124½	†Highland Timber	124½		-	-	-	-
100	F.P.	3.25	125	102½	†Integrated Air Mg	125½		-	-	-	-
§	F.P.	3.88	119½	112½	Longbridge Intl	117½		-	-	-	16.4
290	F.P.	6,157	357½	316½	Norwich Union	319½	-8½	L10.6	1.8	4.1	16.6
§185	F.P.	118.2	200½	195½	Powderject Pharm	200	+½	-	-	-	-
100	F.P.	33.3	112½	99½	Rexbourne Martin	110½	+½	-	-	-	-
§	F.P.	68.5	227	204½	Royalblue Grp	207½	+1½	1.5	2.6	0.9	52.7
§100	F.P.	7.99	120½	110½	†3BS Group	112½		L2.4	2.0	2.7	19.8
§150	F.P.	116.8	157½	155	SGB Group	155½		L4.4	2.8	3.5	12.7
§3	F.P.	5.04	4	3½	Versatile Group	3½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

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Issue price p	Amount paid up	Latest Renun. date	1997 High	1997 Low	Stock	Closing price p	+or-
200	Nil	18/7	24½pm	7½pm	Benchmark Group	8½pm	
155	Nil	9/7	15½pm	1½pm	Century Inns	2pm	
2	Nil	21/7	1pm	¾pm	Dragon Oil	1pm	
1	Nil	15/7	½pm	¼pm	Millwall Hldgs	¼pm	
75	Nil	11/7	7½pm	5pm	Waterfall Hldgs	5½pm	-½

pm premium.

FTSE GOLD MINES INDEX

	Jun 27	% chg on day	Jun 26	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1402.79	–2.0	1431.80	2028.73	2.40	-	2130.83	1402.79
■ Regional Indices								
Africa (14)	1462.46	–1.5	1485.29	2740.46	6.02	23.41	2917.88	1462.46
Australasia (6)	1618.54	+0.1	1617.22	2416.29	3.16	18.44	2465.10	1617.22
North America (11)	1368.45	–2.5	1404.19	1772.35	1.05	56.36	1884.08	1335.84

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jun 30	Day's chge%	Jun 27	Jun 26	Jun 25	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4604.6	–0.8	4640.3	4657.9	4640.0	3725.8	3.54	2.04	17.29	91.51	1966.67
FTSE 250	4431.3	–0.3	4446.0	4459.4	4453.5	4370.4	3.74	1.61	20.72	87.18	1855.81
FTSE 250 ex IT	4434.3	–0.3	4449.0	4463.1	4456.2	4409.8	3.89	1.64	18.57	100.13	1862.32
FTSE 350	2228.0	–0.7	2243.4	2251.5	2244.0	1878.2	3.58	1.95	17.87	45.15	1944.34
FTSE 350 ex IT	2227.2	–0.7	2242.8	2251.0	2243.4	–	3.61	1.96	17.64	12.70	996.57
FTSE 350 Higher Yield	2166.5	–0.8	2180.4	2186.4	2178.1	1795.5	4.83	1.77	14.67	53.82	1602.87
FTSE 350 Lower Yield	2294.5	–0.7	2311.3	2321.4	2314.5	1966.1	2.54	2.25	21.84	36.08	1639.82
FTSE SmallCap	2225.24	–0.4	2233.09	2236.02	2238.22	2189.64	3.21	1.72	22.65	40.80	1882.89
FTSE SmallCap ex IT	2201.89	–0.4	2210.29	2212.87	2216.29	2188.92	3.47	1.80	20.03	43.81	1889.07
FTSE All-Share	2184.52	–0.7	2199.07	2206.71	2199.97	1862.96	3.56	1.94	18.13	43.95	1934.65
FTSE All-Share ex IT	2183.10	–0.7	2197.94	2205.68	2198.88	–	3.60	1.96	17.76	12.88	994.33

■ FTSE Actuaries Industry Sectors

	Jun 30	Day's chge%	Jun 27	Jun 26	Jun 25	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4457.04	–1.1	4506.35	4487.45	4412.56	3499.53	3.43	2.01	18.13	68.92	1996.73
12 Extractive Industries(5)	4372.77	–0.1	4377.68	4421.86	4496.01	4294.48	3.60	2.38	14.57	104.80	1336.81
15 Oil, Integrated(3)	4618.87	–1.3	4678.04	4644.87	4538.80	3556.46	3.61	1.95	17.76	94.47	2127.72
16 Oil Exploration & Prod(12)	3693.36	–0.8	3724.84	3736.20	3716.97	2482.01	1.57	2.21	36.00	39.12	2263.50
20 GEN INDUSTRIALS(267)	1916.03	–0.2	1920.74	1925.68	1913.19	2021.89	4.17	1.89	15.90	42.03	1094.99
21 Building & Construction(35)	1347.57	–0.8	1358.28	1363.24	1371.57	1167.36	3.29	1.93	19.73	26.30	1173.22
22 Building Matls & Merchs(30)	1858.63	–0.8	1872.86	1871.03	1858.87	1876.56	4.34	2.82	10.20	41.69	982.24
23 Chemicals(26)	2414.54	–0.3	2420.80	2431.60	2429.14	2418.51	4.38	1.48	19.34	64.32	1204.70
24 Diversified Industrials(16)	1317.75	+1.2	1301.95	1315.56	1289.23	1581.52	5.53	1.99	11.36	37.73	781.42
25 Electronic & Elect Equip(36)	2042.12	+0.5	2032.31	2000.59	2004.60	2263.63	3.86	1.53	21.18	18.04	1093.60
26 Engineering(66)	2522.67	–0.6	2538.81	2562.37	2549.09	2436.53	3.37	2.26	16.39	50.97	1582.05
27 Engineering, Vehicles(13)	2880.82	–0.8	2905.90	2905.94	2875.81	3010.68	3.56	‡	‡	56.04	1551.72
28 Paper, Pckg & Printing(27)	2000.74	–0.7	2014.78	2048.18	2058.60	2577.25	5.25	1.88	12.69	58.15	874.57
29 Textiles & Apparel(14)	1053.01	–0.3	1056.35	1069.82	1061.48	1368.62	6.65	0.99	18.92	42.55	693.57
30 CONSUMER GOODS(85)	4526.77	–0.1	4531.07	4533.67	4544.72	3573.57	3.41	1.80	20.34	89.22	1748.70
32 Alcoholic Beverages(7)	3279.98	–0.4	3293.00	3279.85	3269.32	2754.09	4.04	1.86	16.48	76.75	1247.22
33 Food Producers(25)	2926.36	–0.3	2936.57	2927.71	2933.51	2506.49	3.79	1.84	17.91	66.87	1388.03
34 Household Goods(17)	2974.00	+0.9	2946.59	2946.65	2963.15	2609.65	3.50	2.81	15.45	59.44	1225.05
36 Health Care(18)	2218.84	–0.1	2221.78	2244.89	2251.09	2109.34	2.78	1.67	27.20	38.82	1395.69
37 Pharmaceuticals(18)	7345.11	+0.1	7337.31	7364.18	7358.10	5183.30	2.51	1.71	29.00	104.77	2578.49
38 Tobacco(3)	4454.04	–0.6	4479.18	4459.31	4574.14	4256.62	6.32	1.81	10.93	158.73	1188.54
40 SERVICES(272)	2556.24	–0.8	2576.18	2584.90	2589.97	2532.57	3.13	1.99	20.06	48.40	1380.51
41 Distributors(30)	2723.11	–0.1	2720.37	2720.78	2717.78	2808.37	3.42	1.94	18.81	54.15	1044.50
42 Leisure & Hotels(31)	3208.19	–0.8	3238.57	3253.67	3279.86	3213.13	2.89	1.81	23.94	69.70	1781.30
43 Media(44)	3990.56	–1.2	4039.07	4049.11	4077.22	4204.93	2.49	1.91	26.29	60.58	1482.54
44 Retailers, Food(15)	2101.23	+0.2	2097.72	2094.71	2080.48	2016.25	3.93	2.27	14.01	51.51	1402.66
45 Retailers, General(53)	1991.63	–1.3	2017.99	2037.82	2050.48	2101.53	3.55	2.04	17.24	46.82	1189.84
47 Breweries, Pubs & Rest.(22)	3104.26	–0.2	3110.80	3093.86	3096.17	3173.43	3.65	2.28	15.01	53.09	1548.20
48 Support Services(54)	2951.75	–0.8	2974.36	2990.52	2980.49	2446.38	1.78	2.70	26.35	23.78	1921.17
49 Transport(23)	2762.01	–0.4	2773.95	2782.21	2785.48	2355.00	3.61	1.38	25.13	58.35	1204.49
60 UTILITIES(31)	2907.60	–0.6	2932.93	2951.01	2913.93	2297.01	4.85	1.49	17.24	58.88	1346.57
62 Electricity(9)	3182.86	–0.1	3186.57	3179.39	3089.03	2547.06	5.58	1.99	11.24	108.23	1807.41
64 Gas Distribution(2)	1980.00	–3.3	2047.29	2096.07	2087.47	1214.63	6.18	‡	‡	68.13	1130.91
66 Telecommunications(8)	2359.42	–1.0	2382.50	2404.56	2406.99	1933.77	3.78	1.68	19.83	13.53	1120.40
68 Water(12)	2593.08	+0.3	2585.09	2572.45	2474.30	2145.55	6.35	2.29	8.59	88.99	1552.60
69 NON-FINANCIALS(676)	2211.31	–0.6	2223.88	2228.14	2220.12	1985.20	3.68	1.83	18.51	44.15	1758.88
70 FINANCIALS(108)	4207.18	–1.0	4250.82	4287.72	4281.61	2881.82	3.34	2.38	15.71	81.77	1900.58
71 Banks, Retail(10)	6464.73	–1.1	6535.35	6600.97	6588.18	3959.84	3.03	2.61	15.82	129.00	2212.76
73 Insurance(18)	1649.22	–1.3	1670.54	1679.78	1683.15	1441.41	5.29	2.55	9.26	55.11	1318.57
74 Life Assurance(7)	4583.55	–1.2	4640.00	4703.45	4673.88	3308.66	3.82	1.96	18.74	121.00	2002.10
77 Other Financial(29)	3130.90	–0.3	3139.55	3137.12	3140.97	2623.13	3.38	1.95	19.02	64.20	1667.39
79 Property(44)	1933.27	–0.8	1948.05	1954.75	1959.23	1522.00	3.34	1.33	26.24	36.89	1244.80
80 INVESTMENT TRUSTS(127)	3397.88	–0.3	3406.76	3413.62	3408.18	3136.30	2.23	1.17	48.08	45.69	1220.13
89 FTSE All-Share(910)	2184.52	–0.7	2199.07	2206.71	2199.97	1862.96	3.56	1.94	18.13	43.95	1934.65
105 FTSE All-Share ex IT(783)	2183.10	–0.7	2197.94	2205.68	2198.88	–	3.88	1.96	17.76	12.60	994.33
FTSE Fledgling	1253.34	–0.3	1257.51	1258.56	1259.80	1245.18	3.22	0.79	49.18	22.85	1357.02
FTSE Fledgling ex IT	1256.18	–0.4	1260.99	1262.22	1253.79	1256.70	3.58	0.77	45.52	22.89	1338.80
FTSE AIM	1055.7	–0.2	1058.3	1055.9	1051.7	–	1.04	1.21	80.00†	3.65	987.78

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4645.1	4659.8	4639.8	4633.5	4639.0	4638.2	4636.5	4626.6	4603.6	4662.4	4603.2
FTSE 250	4443.0	4444.4	4442.8	4440.5	4439.3	4438.4	4438.7	4437.5	4432.8	4445.1	4431.3
FTSE 350	2244.9	2250.8	2242.9	2240.2	2242.2	2241.8	2241.1	2237.2	2227.7	2251.8	2227.8
FTSE SmallCap	2230.81	2230.29	2229.69	2229.11	2229.23	2228.65	2228.42	2227.89	2225.74	2230.81	2225.24
FTSE All-Share	2200.35	2205.65	2198.37	2195.87	2197.73	2197.34	2196.73	2193.07	2184.30	2206.63	2184.14

Time of FTSE 100 Day's high: 9:08 AM Day's low: 4:18 PM. FTSE 100 1997 High: 4604.6 (30/06/97) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 9:08 AM Day's low: 4:13 PM. FTSE All-Share 1997 High: 2184.50 (30/06/97) Low: 1969.76 (02/01/97)

Further information is available on http://www.ftse.com

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† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown.
‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	736	498½	+½
ASDA Group†	5,800	124	
Abbey National†	3,200	820	-13½
Airtours	1,100	1159	+1½
Albert Fisher	4,200	43¼	-2¼
Alliance & Leicester†	2,500	587½	-8½
Allied Domecq†	4,700	431½	-1
Anglian Water	1,200	651½xd	-½
Argos	328	547½	-11
Arjo Wiggins	1,200	178	-2
Assoc. Brit. Foods†	821	518½	+2
Assoc. Brit. Ports	349	256½	-3
BAA†	1,200	563½	+1
BAT Inds.†	3,300	537½	-3

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. All trades are rounded. Source: Extel, part of FT Information.

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 30 / Sch)

BELGIUM/LUXEMBOURG (Jun 30 / Frs.)

CZECH REP (Jun 30 / Korun)

DENMARK (Jun 30 / Kr)

FINLAND (Jun 30 / Mkk)

FRANCE (Jun 30 / Frs.)

GERMANY (Jun 30 / Dm.)

GREECE (Jun 30 / Drachma)

ITALY (Jun 30 / Lire)

NETHERLANDS (Jun 30 / Fls.)

NORWAY (Jun 30 / Kroner)

POLAND (Jun 30 / Zloty)

PORTUGAL (Jun 30 / Escudo)

SPAIN (Jun 30 / Pts.)

SWEDEN (Jun 30 / Kronor)

SWITZERLAND (Jun 30 / Frs.)

TURKEY (Jun 30 / Tk Lira)

Automatic Call Distributor (ACD) technology, which handles high volume in-coming calls, was pioneered by Rockwell.

Rockwell

http://www.rockwell.com

PACIFIC

JAPAN (Jun 30 / Yen)

AUSTRALIA (Jun 30 / Aust$)

HONG KONG (Jun 27 / H.K.$)

INDONESIA (Jun 30 / Rupiah)

MALAYSIA (Jun 30 / MYR)

NEW ZEALAND (Jun 30 / NZ $)

SINGAPORE (Jun 30 / S$)

SOUTH KOREA (Jun 30 / Won)

TAIWAN (Jun 30 / TW $)

THAILAND (Jun 30 / Baht)

NORTH AMERICA

CANADA

TORONTO (Jun 30 / Can $) 4 pm close

MONTREAL (Jun 30 / Can $) 4 pm close

AFRICA

SOUTH AFRICA (Jun 30 / Rand)

Prices supplied by Telekurs, part of FT Information.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $

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INDICES

	Jun 30	Jun 27	Jun 26	1997 High	1997 Low
Argentina					
General(29/12/77)	(u)	22313.80	22970.36	23184.78 24/6	18237.37 2/1
Australia					
All Ordinaries(1/1/80)	2725.9	2702.4	2683.9	2725.90 30/6	2332.20 1/4
All Mining(1/1/80)	920.3	921.7	916.8	987.16 24/2	878.40 15/4
Austria					
Credit Aktien(30/12/84)	415.27	410.49	411.37	431.07 5/6	374.40 9/1
Traded Index(2/1/91)	1309.70	1295.04	1296.28	1316.70 27/5	1118.22 9/1
Belgium					
BEL20(1/1/91)	2380.70	2373.17	2374.81	2400.36 13/6	1871.05 2/1
Brazil					
Bovespa(29/12/83)	(u)	12758.0	12874.0	13053.00 25/6	6965.50 2/1
Canada					
Metals Mins♦(1975)	(u)	5133.44	5129.25	5881.75 10/3	4045.98 11/4
Composite♦(1975)	(u)	6426.40	6453.70	6550.60 13/6	5878.30 14/4
Portfolio§§(4/1/83)	(u)	3248.47	3271.26	3339.88 13/6	2946.02 11/4
Chile					
IGPA Gen♥(31/12/80)	(u)	5730.51	5716.50	5943.70 13/6	4912.42 3/1
Denmark					
CopenhagenSE(3/1/83)	588.62	586.99	588.53	592.16 23/6	470.14 2/1
Finland					
HEX General(28/12/90)	3207.80	3209.94	3209.90	3228.17 25/6	2493.28 2/1
France					
SBF 250(31/12/90)	1871.39	1884.88	1885.73	1885.73 26/6	1538.19 2/1
CAC 40(31/12/87)	2858.26	2891.04	2893.64	2893.64 25/6	2256.97 2/1
Germany					
FAZ Aktien(31/12/58)	1290.55	1286.33	1294.96	1294.96 26/6	988.21 2/1
Commerzbank(1/12/53)	3802.80	3786.70	3812.40	3812.40 26/6	2876.80 2/1
DAX‡(30/12/87)	3795.77	3796.41	3805.29	3805.29 26/6	2848.77 2/1
Greece					
Athens SE(31/12/80)	1518.51	1507.67	1530.34	1727.70 23/5	954.54 2/1
Hong Kong					
Hang Seng(31/7/64)	(c)	15196.79	15128.02	15196.79 27/6	12055.77 3/4
India					
BSE Sens.(1979)	4256.09	4133.24	4111.56	4256.09 30/6	3225.24 2/1
Indonesia					
Jakarta Comp.(10/8/82)	724.55	718.82	709.40	724.55 30/6	631.27 15/4
Ireland					
ISEQ Overall(4/1/88)	3380.49	3370.31	3362.94	3380.49 30/6	2725.07 2/1
Italy					
Banca Comm. Ital.(1972)	835.08	836.93	838.46	844.54 25/6	642.56 2/1
MIB General(2/1/97)	1256.0	1258.0	1260.0	1269.00 25/6	991.00 2/1
Japan					
Nikkei 225(16/5/49)	20604.96	20523.75	20624.75	20681.07 16/6	17303.65 10/1
Nikkei 300(1/10/82)	301.78	299.86	302.54	302.54 25/6	261.04 27/1
Topix(4/1/68)	1553.81	1546.59	1560.28	1560.28 26/6	1328.82 10/4
2nd Section(4/1/68)	1848.25	1839.93	1839.15	1848.25 30/6	1618.50 15/4
Malaysia					
KLSE Comp.(4/4/86)	1077.30	1070.06	1065.74	1271.57 25/2	1041.27 15/5
Mexico					
IPC(Nov 1978)	(u)	4461.11	4464.98	4461.11 27/6	3359.46 2/1
Netherland					
CBS TtlRtnGen(End 83)	1015.8	1027.2	1026.7	1027.20 27/6	730.80 2/1
CBS All Shr(End 83)	587.0	593.5	593.2	593.50 27/6	429.00 2/1
New Zealand					
Cap. 40(1/7/86)	2501.96	2443.22	2418.15	2501.96 30/6	2207.46 1/4
Norway					
Oslo SE(Ind)(2/1/83)	2013.80	2011.00	1998.27	2013.88 30/6	1638.03 2/1
Philippines					
Manila Comp(2/1/85)	2809.21	2835.03	2837.10	3447.60 3/2	2489.38 20/5
Portugal					
BVL 30(4/1/93)	3157.29	3192.00	3198.04	3198.04 26/6	2186.57 2/1
Singapore					
SES All-S'pore(2/4/75)	491.31	487.16	485.75	573.03 17/2	429.94 29/4
South Africa					
JSE Gold(28/9/78)	965.0♥	994.8	1008.8	1588.10 27/2	965.00 30/6
JSE Ind.(28/9/78)	8790.5♥	8747.6	8742.3	8790.50 30/6	7669.50 2/1
South Korea					
KoreaCompEx**(4/1/80)	745.40	738.43	744.34	792.29 17/6	611.85 7/1
Spain					
Madrid SE(30/12/85)	600.62	604.58	603.69	604.58 27/6	434.54 2/1
Sweden					
AffarsvarldenGen(1/2/37)	3024.0	3036.9	3023.8	3036.90 27/6	2378.60 2/1
Switzerland					
SMI Index(1/7/88)	5620.6	5700.3	5669.9	5700.30 27/6	3822.80 7/1
SPI General(1/6/87)	3548.37	3593.51	3577.89	3593.51 27/6	2508.22 6/1
Taiwan					
WeightedPr.**(30/6/66)	9030.28	8984.59	8871.76	9030.28 30/6	6844.75 6/1
Thailand					
Bangkok SET(30/4/75)	527.28	538.18	520.02	858.97 22/1	464.77 19/6
Turkey					
IMKB Nat. 100(1986)	1857.00	1815.00	1705.00	1857.00 30/6	880.00 2/1
WORLD					
MS Capital Intl$(1/1/70)	939.7*	942.2	944.3	949.20 25/6	784.50 14/4
CROSS-BORDER					
Eurotrack 100(26/10/90)	2532.09	2535.30†	2536.65	2536.65 26/6	1880.80 2/1
FTSE E 100(26/6/90)	2108.09	2129.63	2130.39	2130.39 26/6	1582.89 2/1
HSBC JC Drgn(31/12/88)	(u)	425.46	424.07	428.46 20/1	381.54 29/4
ING Barys Emrg(7/1/92)	(u)	190.42	190.12	190.42 27/6	159.74 3/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index)							
Jun	2889.0	2880.5	-6.5	2897.0	2872.0	21,834	11,020
Jul	2875.0	2874.0	-11.5	2895.0	2855.0	22,944	29,821
DAX							
Sep	3853.0	3794.0	-39.0	3853.0	3779.0	17,059	82,454
Dec	3867.0	3822.5	-40.5	3867.0	3815.5	54	1,559
OMX							
Jun	2434.00	2420.00	-14.50	2435.00	2413.00	2,089	23,536
Jul	2441.00	2431.00	+7.00	2441.00	2431.00	41	22,615
SOFFEX							
Jul	5725.5	5625.0	-77.0	5744.4	5601.0	4,787	20,214
Aug	5668.0	5633.5	+45.0	5698.0	5590.0	10	446

	Open	Latest	Change	High	Low	Est. vol.	Open int.
S&P 500							
Sep	894.25	896.90	+2.65	905.00	893.55	66,758	172,744
Dec	907.50	906.60	+2.70	914.80	904.80	172	4,374

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Nikkei 225							
Sep	20710.0	20570.0	-130.0	20790.0	20540.0	21,051	193,817
Dec	20600.0	20600.0	-130.0	20600.0	20600.0	22	1,429

Open interest figures for previous day.

** Sat June 28: Taiwan Weighted Price 9024.48; Korea Comp Ex 746.88. Base values of all indices are 100 except: Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall, Toronto Comp./Met & Mins, DAX - all 1,000; SMI - 1500; JSE Gold - 255.7; JSE 25 Ind - 264.3; IMKB Nat 100 - 1; NYSE All Common - 50; Stand & Poor's - 10 and Amex Comp - 550. §§ Montreal. ♦ Toronto (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Jun 30 - 3766.66 -43.03.

† Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ♦ The DJ Ind. Index theoretical day's highs and lows are ... stock, whereas the actual day's highs and lows represent ... figures in brackets are previous day's). ♥ Subject to official ...

US INDICES

Dow Jones	Jun 27	Jun 26	Jun 25	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7687.72	7654.25	7689.98	7796.51 (20/6)	6391.69 (11/4)	7796.51 (20/6/97)	41.22 (8/7/32)
Home Bonds	103.02	102.85	103.26	103.83 (19/2)	101.09 (14/4)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2732.43	2709.08	2738.14	2758.82 (20/6)	2222.07 (2/1)	2758.82 (20/6/97)	13.23 (8/7/32)
Utilities	225.80	224.32	224.43	240.85 (22/1)	209.47 (25/4)	256.46 (31/8/93)	10.58 (8/7/32)

DJ Ind. Day's high 7793.12 (7754.22) Low 7627.33 (7581.64) (Theoretical‡)
Day's high 7770.73 (7730.24) Low 7653.76 (7594.08) (Actual‡)

Standard and Poors	Jun 27	Jun 26	Jun 25	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	887.30	883.68	888.99	898.70 (20/6)	737.01 (2/1)	898.70 (20/6/97)	4.40 (1/6/32)
Industrials♥	1043.59	1038.34	1044.98	1054.79 (20/6)	865.42 (11/4)	1054.79 (20/6/97)	3.52 (30/6/32)
Financial	101.48	101.17	102.18	104.18 (19/6)	80.75 (2/1)	104.18 (19/6/97)	7.13 (4/6/74)
NYSE Comp.	463.30	460.93	462.90	467.84 (20/6)	389.47 (11/4)	467.84 (20/6/97)	4.64 (25/4/42)
Amex Comp.	620.07	616.10	619.24	630.10 (13/6)	541.20 (28/4)	630.18 (13/6/97)	524.20 (16/7/96)
NASDAQ Comp	1438.15	1436.36	1446.24	1462.43 (24/6)	1201.00 (2/4)	1462.43 (24/6/97)	54.87 (8/10/74)

RATIOS

	June 27	Jun 20	Jun 13	Year ago
Dow Jones Ind. Div. Yield	1.67	1.65	1.64	2.19
	Jun 25	Jun 18	Jun 11	Year ago
S & P Ind. Div. yield	1.62	1.58	1.62	1.87
S & P Ind. P/E ratio	24.35	24.27	24.13	22.29

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Chesapk Eng	8,007,400	9¼	-2⅝
Philip Morris	5,747,200	42⅝	-⅛
Archer Dan	4,582,700	23⅞	+1⅛
PepsiCo	4,402,000	50	+1
Gen Elec	4,296,800	65⅝	+⅝
Micron	4,161,500	40⅛	-1⅛
Tandem	3,997,900	19⅝	-⅛
Banc One	3,941,000	50	+1⅛
Seagate Tch	3,315,400	33⅞	+⅛
JLK Direct	3,088,100	25½	+5½

TRADING ACTIVITY

● Volume (million)	Jun 27	Jun 26	Jun 25
New York SE	455.209	489.781	603.020
Amex	22.367	24.847	25.684
NASDAQ	583.381	621.504	685.215
NYSE			
Issues Traded	3,357	3,365	3,378
Rises	1,808	1,309	1,259
Falls	940	1,455	1,558
Unchanged	609	622	561
New Highs	224	170	269
New Lows	7	17	21

TOKYO - MOST ACTIVE STOCKS: Monday, June 30, 1997

	Stocks Traded	Closing Prices	Change on day
Nippon Steel Cp	5.2m	366	+3
Daiwa Secs	4.9m	904	-45
Sumitomo Mtl Ind	4.8m	326	+10
NEC Corp	4.7m	1600	-60
Nikko Secs	4.5m	705	-49
Nomura Secs	4.4m	1590	+10
Sakura Bank	4.3m	878	-12
Fujitsu	3.9m	1590	-20
Bk Tk-Mitsubishi	3.5m	2300	+30
Nissan Motor	3.5m	869	+29

مكتبة الأصل

4 pm close June 30

NEW YORK STOCK EXCHANGE PRICES

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FINANCIAL TIMES

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Dow follows bonds down at midsession

AMERICAS

Following last week's mercurial swings on Wall Street, the market edged lower at midsession, led down by a sharp drop in bond prices, *writes John Labate in New York.*

The Dow Jones Industrial Average slipped 39.81 at 7,647.91 and the Standard & Poor's 500 slid 2.48 at 884.82.

"The economy is perceived to be stronger than expected, and the stock market is responding to the bond market," said Mr Byron Wien, at Morgan Stanley in New York.

Banking stocks were especially hard hit as First Chicago lost $1¼ at $61⅛ and JP Morgan declined $1½ at $105¾. Nationsbank was unchanged at $65¼ following a morning confirmation of its plans to acquire Montgomery Securities. Chase Manhattan lost $¾ at $97¼, but Citicorp gained $¾ at $121.

In other takeover news, Rykoff-Sexton, a food service company, surged up $3⅝ or 18.5 per cent at $23⅛ following rival JP Foodservice's acquisition plan. JP Foodservice edged $1⅛ or 5.4 per cent lower at $26½.

Long-distance telecommunication stocks edged lower with AT&T down $⅝ at $35⅞ and MCI off $⅝ at $38⅝.

Baby-bell stocks were mainly higher with BellSouth up $⅜ at $45⅝ and Bell Atlantic $⅛ higher at $73⅛.

Pacificare, the healthcare company, bounced up $1⅛ at $60⅞ following Friday's sell-off which was triggered by the company's projection that net income for the quarter will be below forecasts.

Technology stocks also recovered from selling late last week and the Nasdaq composite was unchanged at 1,438.67 by noon. Compaq computer rose $2⅞ at $100⅞ and Dell Computer picked up $2⅞ at $118⅞. Microsoft gained $1 at $128⅞.

TORONTO traded quietly ahead of today's national holiday. Banks stayed weak and golds took another knock. At noon, the 300 composite index was off 12.20 at 6,414.20.

Dealers said that sentiment was uncertain following the weak start on Wall Street and that volumes were light. "Most players completed their end-of-quarter book-keeping on Friday," said one broker.

Banks continued to slip. Royal Bank of Canada came off 30 cents to C$62.55 and Toronto-Dominion Bank, down C$1.65 in two sessions at the end of last week, shed a further 50 cents to C$41.10. Bank of Montreal dipped 30 cents to C$53.80.

Among golds, Placer Dome fell 30 cents to C$22.15 and Barrick Gold came off 5 cents to C$30.05. Newbridge Networks was a rare gainer, adding 30 cents to C$59.60.

Caracas pushes ahead

CARACAS continued to move ahead strongly with the IBC index putting on 5.4 per cent at the end of the morning session.

Dealers said the euphoria of the past few days showed no signs of abating. "Everybody is piling in. There is heavy foreign buying," said one broker. Share prices have been fuelled by economic reforms and tariff rises for the leading utility, Electricidad de Caracas. At midsession, the IBC index was up 476.96 at 9,278.19.

SAO PAULO fell back in early trading. Telebras came off 1.9 per cent to R$163.50 following a downgrade from "buy" to "hold" at Credit Suisse First Boston. At midsession, the Bovespa index was 222 or 1.7 per cent lower at 12,536.

Profit-taking pulls bourses back from highs

EUROPE

The uncertain start on Wall Street sparked late profit-taking in PARIS and the CAC 40 index closed at 2,858.26, its low for the session and a decline of 22.78.

At 16.4m shares, volume was moderate by recent standards, but there was no denying that the final hour had seen genuine selling. A quarter of the components of the CAC fell by more than 3 per cent.

Cyclicals were a prime target for the sellers. Renault came off FFr6.80 to FFr148.7 and Peugeot and Michelin fell FFr15 to FFr568 and FFr9.50 to FFr352.9 respectively. Air Liquide lost FFr36 to FFr933.

Among financials, Axa-UAP, which denied a French press claim that it was teeing up heavy provisions, lost FFr5.40 to FFr365.5. BNP retreated FFr7.80 to FFr242.2.

LVMH provided one of the few upside stories. News that the chairman, Mr Bernard Arnault, was to meet the management of Grand Metropolitan of the UK tomorrow lifted the shares FFr33 to FFr1,580 amid all sorts of speculation.

"It looks as if LVMH has won the first round by taking a stake in Grand Met and buying a seat at the negotiating table. There are lots of people betting that the Grand Met-Guinness merger will be extended to some sort of three-way deal," said one broker.

ZURICH turned down after its latest record-setting run as profit-taking and derivatives linked transactions pulled the market back. The SMI index, which set all-time highs on each of the previous three sessions, fell 79.7 or 1.4 per cent at 5,620.6.

Alusuisse bucked the trend. The shares added SFr12 to SFr1,512, extending their rally since the start of June to 13.3 per cent, on speculation that the company might announce a spin-off or plans to unify its registered and bearer shares at a briefing on Friday. Some analysts were sceptical about a spin-off, however, noting that the company's three core businesses of aluminium, chemicals and packaging were all performing well.

Among the banks, Credit Suisse slumped SFr8.50 to SFr187.50 and SBC gave up SFr5 to SFr390.50 after rumours late last week that they might merge part of their activities failed to be substantiated.

Sulzer lost SFr22 to SFr1,250 as its medical technology subsidiary, Sulzer Medica, which is going public later this month, forecast that its rate of return on sales would decline again this year before rising in 1998.

FRANKFURT pulled back on profit-taking, although a firm dollar, above DM1.74, did provide some support for exporters in the motor and chemicals groups. The Ibis-indicated Dax index lost 43.03 to 3,766.89 in turnover of DM13.9bn.

Porsche bucked the trend, jumping DM180 to DM2,550 on news that the luxury car maker had overcome the final components bottleneck holding back production of its new Boxster sportscar.

Mr Chris Will at Lehman Brothers said the company had confirmed that Kolbenschmidt, which manufacturers aluminium engine blocks for the new car, would raise production capacity early next year.

Volkswagen, a good performer last week on a strong Merrill Lynch recommendation, remained in demand, rising DM6 to DM1,222.

Chemical stocks were mixed. Hoechst gained 10 pfg to DM73.90 after the group said it would slow the pace of acquisitions in its pharmaceuticals division. Bayer gave up 40 pfg to DM67.50.

AMSTERDAM eased lower in narrow trading. Financials provided a couple of bright spots, but for the most part the market sat on its hands. The AEX index ended off 8.90 at 861.55.

Aegon added Fl 1.80 at Fl 137 and Fortis Amev jumped Fl1.90 to Fl 87.40. Both stocks looked to be catching up with sector-rival ING where broker upgrades have recently created a significant rally.

Publishers were dull: Wolters Kluwer lost Fl 5.20 to Fl 239 in spite of an upgrade from "hold" to "buy" from Delta Lloyd. And a buy note from Nikko Securities in London did nothing for VNU which dipped 50 cents to Fl 43.

Heineken continued to falter, slipping Fl 16.70 or 4.8 per cent to Fl 335. Last week's worries about a possible bid for Grolsch were compounded yesterday by reports of slowing Dutch beer exports. Telecoms leader KPN was another major casualty, falling Fl 2.60 or 3.5 per cent to Fl 77.

MILAN made a strong start in response to Friday's discount rate cut but soon ran into profit-taking. The Comit index was 1.57 lower at 626.08 while the real-time Mibtel index turned back from a best-ever 13,542 to close 206 weaker at 13,182.

Telecom shares were lower on profit-taking and fine tuning of portfolios ahead of the merger between Stet and Telecom Italia, with some funds said to be overweight in both stocks. Stet traded down L224 at L9,801, Telecom Italia fell L196 to L5,455.

Eni rose L38 to L9,609 after the treasury's public offering of the third tranche saw the shares three times subscribed.

Generali turned back from a high of L31,900, which greeted Saturday's news of higher premium income in the four months to April, and closed L477 weaker at L30,650 on profit-taking.

STOCKHOLM ended lower, down 11.53 at 2,985.90 on the general index where a SKr8.50 slide to SKr304.5 at Ericsson did much of the damage.

In COPENHAGEN Carlsberg recovered all of Friday's heavy loss on the news that the Bass deal had been vetoed by the UK government. The shares rallied DKr10.00 to DKr368 and the KFX index edged 0.89 higher to 171.71.

ISTANBUL added to last week's 10.5 per cent rally with another rise of 2.3 per cent as hopes grew that the newly formed secularist coalition's programme would win a parliamentary confidence vote, scheduled for July 12.

The IMKB National-100 index closed 42 higher at an all-time high of 1,857.

Written and edited by Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

Jun 30						THE EUROPEAN SERIES			
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2544.27	2569.32	2545.56	2539.73	2538.34	2536.27	2537.71	2532.09
FTSE Eurotrack 200	2517.75	2512.55	2515.37	2518.00	2518.62	2514.37	2511.53	2502.67

	Jun 27	Jun 26	Jun 25	Jun 24	Jun 23
FTSE Eurotrack 100	2535.20	2528.55	2511.55	2478.83	2488.96
FTSE Eurotrack 200	2509.34	2513.64	2461.82	2464.87	2453.47

Base value 1000 (26/10/90). High/day: 100 - 2544.89; 200 - 2518.88 Low/day: 100 - 2531.87 200 - 2502.67 † Period
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New Zealand advances 2.4% to all-time peak

ASIA PACIFIC

Softening money market rates after weak economic data pushed WELLINGTON to an all-time high in heavy trading volume. At the close, the 40 capital index was up 58.74 or 2.4 per cent at 2,501.96 in turnover of NZ$128m, double the norm for a Monday.

There was some end-of-quarter book-squaring but the main drive came from interest rates where the trend was seen as firmly downwards after GDP for the March quarter fell by a seasonally adjusted 0.5 per cent, the first decline since September 1992.

Big caps led the way up. NZ Telecoms gained 30 cents to NZ$7.50 in turnover of NZ$34.7 and Carter Harvey Holt added 13 cents at NZ$3.81.

TOKYO reversed early losses to end modestly higher in the face of heavy selling of securities houses' shares, *writes Gwen Robinson.*

The Nikkei 225 average gained 81.21 to 20,604.96 after moving between 20,493.05 and 20,683.57. There was initial encouragement following Friday's overnight rise in Chicago for the Nikkei-225 futures, and after two days of decline the market made a firm start.

But by mid-afternoon the 225 index was trailing, hit by reports of the spreading scandal in Japan's securities industry, after a corporate racketeer accused of illegal dealings with Nomura and Dai-Ichi Kangyo Bank implicated Daiwa Securities and Nikko Securities.

This setback led to late bargain-hunting and at the close, advances narrowly led declines 541 to 533 with 189 unchanged. Volume thinned from Friday's 415m to an estimated 317m shares. The Topix index of all first-section stocks rose 7.22 to 1,553.81 and the capital-weighted Nikkei 300 was up 1.92 at 301.78. In London, the ISE/Nikkei 50 index rose 0.96 to 1,644.66.

Hong Kong and the mainland Chinese markets were closed

Daiwa and Nikko were the day's big losers, leading securities houses down 2.1 per cent as a group. Nikko slid Y49 to Y705 and Daiwa Y45 to Y904. Yamaichi Securities, which some Japanese media accused of involvement in the same scandal, shed Y10 to Y341. Nomura, however, rose Y10 to Y1,590.

Banking issues mostly rebounded from Friday's decline. Bank of Tokyo-Mitsubishi rose Y30 to Y2,300 and Industrial Bank of Japan Y20 to Y1,780.

Foreign investors and domestic institutions pursued blue-chip exporters, particularly carmakers. Honda advanced Y60 to Y3,450, Toyota Y50 to Y3,380 and Nissan Y29 to Y889.

Among electricals and high-technology stocks, TDK rose Y80 to Y8,410 and Matsushita Y20 to Y2,210. Nikon gained Y30 to Y1,930 but Canon fell Y30 to Y3,120.

In Osaka, the OSE average gained 59.48 to 21,287.05 and volume swelled to 21m shares.

SYDNEY ended at a record after a surge at resources leader BHP and another strong day for banks. The All Ordinaries index rose 23.5 to a best-ever 2,725.9.

BHP added 33 cents to A$19.48 following Friday's publication of a solid set of results. Banks continued to advance on hopes for a cut in local interest rates. NAB gained 17 cents to A$18.97 and Westpac 17 cents to A$7.07.

JAKARTA rose 7.93 to a record 724.56 on the composite index after an active session for leading stocks.

Indocement rose Rp125 to Rp3,775 and Sampoerna gained Rp350 to Rp9,275.

BOMBAY was in bullish mood as a sharp rally in index heavyweight stocks helped the market up 3 per cent to a 31-month high. The BSE-30 index, 122 per cent higher over the previous five weeks, jumped 122.86 to 4,256.09, with foreign funds said to be keen buyers.

Analysts noted cement stocks were in favour as a result of a brighter outlook for the sector. Associated Cement Companies jumped Rs38.8 to Rs1,493.0 and India Cements rose Rs9.75 to Rs108. Gujarat Ambuja Cement continued its uptrend, adding Rs16.75 at Rs345.75 on rumours of a possible Stake share issue.

SINGAPORE moved ahead, fuelled by healthy demand for Chinese-linked issues on the eve of Hong Kong's handover, and selective buying of blue chip banks and property issues. The Straits Times Industrials index rose 13.68 to 1,987.85.

The newly-listed Tianjin Zhongxin Pharmaceutical ended at US$1.15, up 12 cents on the day but down from an intraday high of $1.19.

China North Industrial also rose to a high of 65 US cents, before settling at 60.5 cents, up 3.5 cents.

Elsewhere, City Developments rose 40 cents to S$14, OCBC foreign 50 cents to S$14.80 and DBS Bank foreign 30 cents to S$18.

KUALA LUMPUR's blue chips closed firmer as fund managers balanced their books at the end of the month. The composite index closed 7.24 higher at 1,077.30.

Small capitalised stocks were among the day's most active issues. Chase Perdana gained 70 cents to M$22.70 on plans to diversify into stock-broking with the acquisition of a substantial stake in a Sabah-based brokerage.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1997	Start of 1997	Start of 1997
Austria	-0.87	+0.10	+17.96	+13.56	+3.73	+0.76
Belgium	+0.44	+3.20	+37.89	+24.67	+13.93	+10.67
Denmark	-1.39	+2.92	+43.56	+22.37	+12.39	+9.16
Finland	+3.57	+7.32	+57.52	+30.39	+19.39	+15.66
France	+4.71	+11.19	+35.64	+23.37	+12.74	+9.51
Germany	+0.07	+8.42	+44.91	+29.24	+18.09	+14.72
Ireland	+0.11	+2.65	+30.44	+19.49	+9.71	+6.57
Italy	+1.59	+11.87	+32.03	+30.04	+19.86	+16.43
Netherlands	+1.47	+10.92	+55.76	+36.27	+23.26	+16.75
Norway	+1.76	+3.45	+40.74	+21.03	+10.02	+5.90
Spain	+2.25	+9.78	+67.32	+36.56	+24.61	+21.05
Sweden	+3.30	+8.66	+60.20	+30.21	+18.56	+15.17
Switzerland	+2.53	+12.84	+51.44	+43.46	+36.90	+32.96
UK	+0.79	+0.25	+22.70	+10.50	+10.50	+7.34
EUROPE	+1.58	+5.96	+37.16	+23.14	+16.73	+13.39
Australia	-0.56	+3.99	+24.32	+13.98	+10.17	+7.02
Hong Kong	+0.61	+4.20	+25.26	+6.53	+9.48	+6.35
Indonesia	+0.06	+1.65	n.a.	+11.46	+11.48	+8.30
Japan	+1.22	+4.60	-7.60	+6.07	+10.65	+7.48
Malaysia	-3.22	-4.83	-5.16	-16.08	-13.52	-15.99
New Zealand	+0.43	+4.02	+16.74	+5.07	+3.61	+0.94
Philippines	-1.03	-1.84	n.a.	-18.79	-14.61	-17.05
Singapore	+0.14	-2.74	-7.34	-7.16	-6.47	-9.14
Thailand	+16.52	-6.58	-63.46	-37.90	-36.65	-38.47
Canada	-1.37	+1.36	+32.76	+10.46	+12.80	+9.58
USA	-1.25	+4.59	+32.29	+19.07	+22.58	+16.07
Brazil	+3.67	+11.95	+77.77	+64.04	+63.14	+58.46
Mexico	+0.96	+12.66	+36.42	+32.42	+34.93	+31.08
South Africa	+2.42	+4.89	+3.85	+10.44	+17.75	+14.39
WORLD INDEX	+0.04	+4.81	+23.32	+16.72	+17.70	+14.33

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South Africa hits new high

Johannesburg's all-share index absorbed a steep fall for golds to notch up another record close, adding 9.00 at 7,420.0 in heavy end-of-quarter trading volume.

Industrials continued to power ahead with the index advancing 42.9 to 8,790.5. "There has been plenty of end-of-quarter window dressing by unit trusts as well as futures arbitrage," said one broker.

Golds though stayed out in the cold. As the bullion price slipped to a four-year low, the golds index ended off 29.8 at 965. Randgold tumbled R2.25 to R20.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS	FRIDAY JUNE 27 1997								THURSDAY JUNE 26 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	237.47	-0.5	211.81	171.94	214.36	211.76	0.1	3.63	238.59	212.30	171.47	214.41	211.66	240.62	188.44	202.06
Austria (24)	191.36	-0.5	170.68	138.56	172.74	172.64	0.0	1.93	192.29	171.11	136.20	172.81	172.71	200.52	174.70	185.07
Belgium (26)	251.99	-0.5	224.78	182.48	227.47	222.72	-0.1	3.21	253.41	225.49	182.12	227.76	222.93	255.87	206.70	209.12
Brazil (30)	300.60	-1.1	268.11	217.86	271.35	595.10	-1.1	1.24	303.81	270.35	218.34	273.03	601.95	308.71	178.26	181.27
Canada (112)	208.02	-0.8	185.54	150.62	187.76	208.14	-0.4	1.80	209.24	186.19	150.37	188.04	209.06	212.88	154.12	158.84
Denmark (32)	384.26	-0.7	342.73	278.23	346.86	345.54	-0.3	1.48	387.13	344.48	278.22	347.90	348.75	392.72	301.76	301.76
Finland (26)	284.89	-0.5	254.10	206.27	257.19	309.73	0.0	1.77	286.31	254.77	205.77	257.30	309.77	287.97	186.67	190.43
France (90)	234.43	-0.4	209.10	169.74	211.62	215.37	0.0	2.63	235.40	209.47	169.18	211.55	215.38	235.40	186.94	196.56
Germany (59)	217.95	-0.8	194.39	157.80	196.73	196.73	-0.4	1.44	219.75	195.54	157.93	197.48	197.48	219.98	168.70	171.59
Hong Kong (66)	539.23	0.6	480.95	390.43	486.75	536.43	0.6	2.82	536.06	477.03	385.27	481.75	533.24	539.23	407.55	400.82
Indonesia (27)	247.12	1.2	220.41	178.93	223.07	366.61	1.3	1.72	244.09	217.20	175.42	219.36	363.87	-	-	-
Ireland (17)	350.47	0.0	312.59	253.76	316.36	327.11	0.1	2.84	350.34	311.75	251.76	314.84	326.64	354.64	270.08	283.17
Italy (59)	97.21	-0.6	86.71	70.39	87.75	123.29	-0.2	2.05	97.98	87.17	70.40	88.04	123.59	98.92	73.26	81.54
Japan (485)	138.73	-1.7	123.74	100.45	125.23	100.45	-1.0	0.78	141.12	125.58	101.42	126.82	101.42	157.19	107.57	157.19
Malaysia (107)	506.75	-0.1	452.00	366.93	457.45	492.37	-0.1	1.40	507.22	451.35	364.53	455.83	492.67	660.65	506.76	559.24
Mexico (27)	1598.65	0.6	1426.07	1157.67	1443.27	13902.03	0.6	1.34	1588.95	1413.92	1141.95	1427.95	13820.90	1598.88	1110.35	1221.98
Netherland (19)	402.55	-0.5	359.04	291.47	363.37	368.99	-0.1	2.17	404.39	359.84	290.63	363.41	368.17	404.39	279.88	298.01
New Zealand (14)	92.63	0.2	82.62	67.07	83.61	72.47	1.5	4.01	82.41	82.23	66.41	83.04	71.38	85.60	76.04	79.71
Norway (41)	313.00	-0.1	279.17	226.63	282.54	310.01	0.4	1.98	318.32	278.80	225.17	281.67	306.84	321.23	248.04	249.74
Philippines (22)	168.91	0.3	150.65	122.30	152.47	222.10	0.4	0.85	168.38	149.81	120.99	151.30	221.29	-	-	-
Singapore (42)	381.46	-1.4	340.23	276.20	344.34	251.24	-1.2	1.21	386.90	344.28	278.06	347.70	254.39	448.01	360.08	417.12
South Africa (44)	364.24	0.1	324.87	263.73	328.79	359.55	0.2	2.41	363.92	323.83	261.54	327.06	358.80	370.12	301.49	365.12
Spain (35)	266.07	-0.8	237.31	192.65	240.17	295.81	0.1	2.24	266.83	237.44	191.77	239.80	295.45	287.66	171.91	182.26
Sweden (49)	485.89	0.2	433.38	351.81	438.60	556.30	0.4	1.85	484.82	431.41	348.43	435.69	552.36	485.89	334.35	353.13
Switzerland (35)	317.24	-0.1	282.95	229.70	286.37	284.91	0.5	1.17	317.50	282.53	228.18	285.33	283.41	317.65	231.69	242.59
Thailand (43)	56.95	2.3	62.58	42.58	53.21	59.20	2.3	5.27	57.64	51.29	41.43	51.80	57.89	172.82	47.55	184.65
United Kingdom (212)	303.95	-0.5	271.11	220.09	274.38	271.11	-0.4	3.73	305.81	272.12	219.78	274.82	272.12	308.21	229.63	230.42
USA (647)	359.40	0.4	320.56	260.23	324.43	359.40	0.4	1.71	357.95	318.52	257.25	321.68	357.95	363.96	254.76	271.68
Americas (816)	329.85	0.3	293.40	238.18	296.94	277.05	0.3	1.71	327.83	281.72	235.61	294.61	276.09	332.73	238.09	248.13
Europe (726)	271.75	-0.5	242.38	196.76	245.30	251.76	-0.1	2.56	273.08	242.99	196.25	245.41	252.08	273.08	204.71	209.81
Nordic (180)	411.22	-0.1	365.78	297.75	371.20	408.12	0.2	1.80	411.46	366.14	295.71	369.77	407.11	412.13	291.45	302.13
Pacific Basin (882)	156.96	-1.3	139.99	113.65	141.68	114.87	-0.7	1.24	158.99	141.48	114.26	142.88	115.86	168.80	127.18	166.30
Euro-Pacific (1608)	204.85	-0.8	182.71	148.32	184.92	166.51	-0.4	1.87	206.60	183.84	148.48	185.67	167.12	206.60	173.55	186.36
North America (759)	350.03	0.4	312.20	253.44	315.96	349.32	0.4	1.72	348.78	310.36	250.66	313.44	348.05	354.37	243.88	254.72
Europe Ex. UK (514)	247.80	-0.4	220.84	179.28	223.51	234.70	0.0	1.82	248.66	221.27	178.70	223.46	234.66	248.77	195.65	199.07
Pacific Ex. Japan (397)	315.21	0.1	281.14	228.28	284.53	277.78	0.3	2.68	314.98	280.29	226.38	283.08	277.03	320.95	268.97	287.79
World Ex. US (1821)	208.43	-0.8	185.90	150.91	188.14	173.20	-0.4	1.95	210.13	186.98	151.02	188.84	173.66	210.13	176.94	187.59
World Ex. UK (2256)	251.82	-0.2	224.60	182.33	227.31	221.93	0.0	1.64	252.35	224.55	181.36	228.78	221.66	252.98	199.58	211.79
World Ex. Japan (1983)	316.87	0.1	282.62	229.43	286.03	308.47	0.2	2.05	316.71	281.82	227.61	284.62	305.89	317.69	233.10	244.79
The World Index (2468)	256.34	-0.2	228.64	185.61	231.40	226.63	0.0	1.84	256.98	228.67	184.69	230.94	226.65	257.44	202.32	213.52

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صكدا من الاهل

Argentina

■ Area: 2,737,000 sq km
■ Population: 34.8 million (1995)
■ Language: Spanish
■ Currency: The peso has been fixed at the rate $1=1 peso since April 1991

■ Main towns & population (1991)

Buenos Aires (federal capital)	2,961,000
Greater Buenos Aires area	10,911,000
Córdoba	1,179,000
Rosario	1,078,000
Mendoza	122,000
Greater Mendoza area	721,000
La Plata	549,000

Economic summary

	1996 Estimate	1997 Forecast
Total GDP ($bn)	295.3	312.0
Real GDP growth (annual % change)	4.3	7.3
GDP per head ($)	8,522	8,890
Inflation (annual % change in CPI)	0.1	1.5
Agricultural output (annual % change)	3.0	3.0
Industrial production (annual % change)	5.0	4.0
PSBR (% of GDP)	-0.9	-0.7
Money supply, M2 (annual % change)	17.0	8.5
Foreign exchange reserves ($bn)	18.1	19.8
Debt service ratio (%)	44.3	52.0
Total foreign debt (% of GDP)	30.9	31.1
Current account balance ($bn)	-4.1	-6.7
Merchandise exports ($bn)	23.8	28.0
Merchandise imports ($bn)	-22.2	-30.0
Trade balance ($bn)	1.6	-2.0

Main trading partners (share of total trade to world, 1995)

Exports		Imports
8.5%	US	20.8%
26.1%	Brazil	20.8%
5.5%	Germany	20.7%

Source: EIU; Broda y Asociados; Government of Argentina

IN THIS SURVEY

Although the recovery has been strong it has failed to generate a quick 'feel-good factor' among the population. Wider social issues are also now clouding the future, reports **Stephen Fidler**

Economic advance tempered by political questions

Argentina'a economy has emerged strengthened from the crucible of its 1995 Mexico-indnced crisis. Inflation is now negligible and the economy is set to grow more than 7 per cent this year, probably the fastest in Latin America. The speed and nature of the recovery suggest it is sustainable for several years at historically high rates of growth.

Deep structural changes in the early 1990s – including widespread privatisation and deregulation – appear to have improved the economy's prospects into the medium tarm. Unfortunately, the country's political system and institutions such as the judiciary have not kept pace with these economic advances. Their backwardness seems unlikely to inhibit growth in the short term; longer-term, it may.

The crisis after Mexico's December 1994 devaluation proved a test of fire for the country's convertibility plan, introduced in April 1991 when annual inflation was 5,000 per cent. Under the plan, the peso was pegged at parity to the dollar and each peso in circulation was backed by a dollar in the central bank's reserves.

In the first three months of 1995, the monetary base shrank by 36 per cent and almost a fifth of all deposits fled the banking system. But the convertibility plan worked as expected.

With money supply contracting sharply, a recession became inevitable. Gross domestic product fell by 4.6 per cent in 1995, hut domestic prices adjusted to make the country's exports more competitive. The economy grew last year by 4.3 per cent and investors emerged more confident. Investment growth this year is likely to exceed 20 per cent, helping to revive a competitive agriculture sector and its moribund mining industry.

Mr Miguel Angel Broda, who runs an economic consultancy in Buenos Aires, says the economy can, in the absence of serious internal or external shocks, grow by 20 per cent in the three years to the end of the century even if the government continues on what he calls "antomatic pilot".

Mr Pedro Pou, the central bank president, describes the 1995 experience thus: "We made a huge investment, that was intended to create confidence in our ability to maintain this set of rules at whatever cost. We paid a high price in terms of the drop in GDP, but it was an investment from which we are now reaping the benefits."

Short-term economic risks remain. One, not viewed as probable, is that current social unrest becomes more generalised, hurting confidence in the economic programme.

Of more concern to most economists is the risk associated with a less benign international financial environment that would make it difficult for Argentina to continue to roll over maturing debt.

The other main risk is seen as that of a crisis in Brazil, which could also follow any sharp rise in world interest rates. While the direct risk is small – total exports to Brazil account for just 3 per cent of GDP – the risk to confidence could be significant, as demonstrated in 1995 when the direct links between the Argentine and Mexican economies were negligible.

However, today the financial system is in better shape to weather financial storms. The banking system is stronger. The central bank has organised a back-up line of credit with international banks worth more than $6bn. Together with the banks' required holdings of international assets, some 30 per cent of all bank deposits are covered. In 1995, some $8bn left the banks, 18 per cent of assets.

Most larger private banks are now owned by foreign banks, providing further pillars of support.

The economy is also being closely monitored hy the International Monetary Fund. A start is to be made soon on negotiating a new three-year programme with the IMF to come into effect at the beginning of oext year. With the economy moving ahead well, the aim will be in part to use the programme to improve the low quality of government spending, say economy ministry officials.

As he enters his ninth year in office though, President Menem is not getting much credit for the economic changes he has fashioned. His popularity has fallen, leaving him trailing in the opinion polls to his Peronist rival Mr Eduardo Duhalde, governor of Buenos Aires province.

The most important reason is unemployment, which jumped from 10.9 per cent in May 1994 to 18.6 per cent a year later. Partly because of a growing workforce and an inefficient labour market, the decline is not expected to be rapid. Unemployment is still likely to exceed 15 per cent by the year end.

As a result, the level of social protest in the country is greater than in any year sioce 1990. Mr Broda says the 1995 recession made it clear to some people that their losses from economic reform would be permanent, rather than temporary as they previously believed.

Although the nature of the export- and investment-led recovery suggests it can be sustained, it is the type of recovery that does not generate a quick "feelgood factor" among the population. Moreover, despite growth of 28 per ceot from 1990 to 1996, the average real incomes of Argentines are only 2 per cent higher than they were in 1974.

Mr Menem, who changed tha constitution to make it possible for him to rum again for office in 1995, has also been hurt by the corruption allegations that swirl daily around his government. In what opponents see as an irony, Mr Duhalde has cleverly turned the corruption issue to his own benefit.

The links emerging betweeo government ministers and the postal entrepreneur, Mr Alfredo Yabrán, have filled the newspapers and last week led to the resignation of the justice minister, Mr Elías Jassan.

Mr Yabrán has denied allegations made in Congress by the former economy minister, Mr Domingo Cavallo, that he is at the centre of a "mafia" seeking to dominate the country's courier industry, which together with airport concessions would allow him to control movements of goods in and out of the country.

But if the press is doing its joh in bringing such important issoes to public attention, there is usually little follow-throogh from the weakeoed institntions of state. The judiciary, dominated by Menem appointees, geoerates little public confidence.

According to Mr Luis Moreno Ocampo, a lawyer and a consultant on corruption issues, the judiciary is just one aspect of the matter. "Judges are like surgeons for the bealth of the population. They are important but they are just part of the problem," he says. "The whole legal culture of the country is very weak."

Despite soch issues, the Peronists may still bold on to their majority in Coogress after the mid-term elections in October. "The Peronists are going to win the next elections," says Mr Rosendo Fraga, a political analyst. The reasons, he says, are the divisions among the ruling party'a oppooents and the economic recovery.

The main issue to be determined by this year's elections will therefore be how quickly power ebbs away from Mr Menem. With the Peronists' formidable political organisation, they will be hard to beat in the presidential elections for the year 2000, particolarly hy a divided opposition.

If Mr Menem, as now seems likely, fails to secure the right to stand for a third successive term, the question will be whether a candidate he favours, or Mr Duhalde, will stand on the Peronist ticket.

As yet, politics and corruption are not unsettling economic growth and the ecooomic programme of tha government remains unchallenged.

One of the two main issues of popular coocern – unemployment – should decline in significance, if slowly, as the economy expands. However, the other – corruption – will not go away soon.

As Italy's post-war history has shown, countries with high levels of political corruption can enjoy economic success. But in most countries, a longer-term ecooomic cost, ofteo beavy, is extracted as the credibility of democracy and its institutions are undermined.

The Stock Market in Argentina

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As from the important process of economic reforms that started in Argentina in the early 90's, the stock market has steadily grown reaching levels that may be compared to the record highs.

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THE ECONOMY • by Stephen Fidler

On the fast track to recovery

The economy is likely to be the fastest growing in Latin America this year

Argentina's recovery from the deep recession of 1995 has happened more rapidly than most economists believed possible. The economy shrank 4.6 per cent in that year as the ripples from Mexico's financial crisis hit Argentina harder than any other country apart from Mexico itself.

But after growth of some 4.3 per cent last year, the economy is likely to be the fastest growing in Latin America in 1997. According to Mr Miguel Angel Broda, who runs an economic consultancy in Buenos Aires, his most conservative estimate suggests a 7.3 per cent growth rate this year. In fact, growth could easily reach 8 per cent.

The speed of the recovery is testimony to the unexpected flexibility of the economy under the so-called convertibility plan, the currency board arrangement under which the peso is fixed to the dollar and each peso in circulation is backed by foreign exchange reserves.

Inflation is now negligible. Moreover, the deep structural changes to the economy in the early 1990s – including widespread privatisation and deregulation – appear to have improved its economic prospects into the medium term.

"The Argentine system has changed dramatically," said Mr Broda. He argues that Argentina has undergone three dramatic transformations in its recent history: the shift to democracy after the 1982 war with the UK over the Falkland Islands; the economic reforms introduced by the first administration of President Carlos Menem in the early 1990s after the hyperinflation of the late 1980s; and the "tequila" crisis in 1995 following Mexico's devaluation.

The survival of convertibility hugely increased its credibility and changed the views of both consumers and producers about its durability, he said. Neither group now expects a devaluation and both are making production and consumption decisions accordingly.

There was a negative consequence for some, however. "The losers from this economic change thought it was transitory and now realise that it is permanent," said Mr Broda. This may partly explain the increased social protest in Argentina in the face of a growing economy.

Unemployment remains high. It jumped from 10.8 per cent in May 1994 to 18.6 per cent a year later. However, rapid growth should mean that the figure for May – to be published early this month – should have declined probably, say economists, to around 16.5 per cent. By year-end, it is expected to fall below 16 per cent, a significant fall but not enough perhaps to take unemployment off the political agenda.

Indeed, any "feel-good" feeling among the population is likely to be limited by the fact that the current recovery is being led by investment and exports rather than consumption. This year, the Broda consultancy expects 21 per cent growth in investment, compared with 8.3 per cent last year; consumption growth of 5.6 per cent versus 5.2; export growth of 10.1 per cent versus 6.3; and import growth of 18.4 per cent versus 15.9.

Against this backdrop, and without the government doing anything, 20 per cent growth is quite conceivable for the last three years of this government, says Mr Broda.

There are three widely-acknowledged risks that could send the economy off course. One is that the current outbreaks of social unrest become generalised, hurting confidence in the economic programme.

Of more concern to most economists are the risks associated with a tightening of international liquidity or a collapse in US markets that would make it difficult for Argentina to continue to roll over maturing debt in the international markets.

The government is going to require some $12bn-$14bn of financing a year over the next few years, but this year's fund-raising effort is 70 per cent complete.

The demand for funds on behalf of the government is increased by a fiscal deficit expected again to approach some 2 per cent of gross domestic product this year. Howaver, part of this has arisen because of the switch to privata pension fund arrangements which has reduced the government's income while leaving its outgoings unchanged. Furthermore, while not falling as it should in a fast-growing economy, the deficit has stabilised since last year.

The other main risk is seen to be that of a crisis in Brazil, which could also follow from an international liquidity squeeze. There are two aspects to this: the direct economic risk caused by a big devaluation in Brazil and the impact on confidence of a crisis in Brazil.

The direct risk is very small. Despite the rapid growth in exports from Argentina over the past few years, it remains a relatively closed economy. Total exports account for about 9 per cent of GDP. Brazil currently takes 30 per cent of these exports – equivalent to some 3 per cent of Argentine GDP. If exports were to decline sharply by say a third, the direct effect on Argentine GDP would thus be 1 per cent. However, a large part of Argentina's exports to Brazil are commodities, including oil, for which there is an international market, albeit at a possibly slightly less favourable price.

The risk of a Brazil crisis is very difficult to gauge, as was demonstrated in 1995, when the direct links between the Argentine and Mexican economies were less significant than those between Argentina and Brazil.

Nonetheless, since 1995, some additional defences have emerged. The banking system is stronger. The central bank has built np a back-up secured line of credit with international banks worth more than $6bn. This, together with the banks' liquidity requirements held in international assets, covers some 30 per cent of all bank deposits. In 1995, some $8bn left the banks, 18 per cent of their assets.

Furthermore, there have been important measures to increase transparency about the financial state of the banks, improving credit risk information and large foreign investment in the banking system so that a majority of the largest privately-owned banks are now owned by foreign banks. As a result, if another financial storm comes, the system should be well placed to withstand it.

Mission statement at the headquarters of the central bank: its primary and fundamental aim "is to preserve the value of the currency". Since April 1991, the peso has been fixed at parity to the dollar

INTERNATIONAL RELATIONS • by Stephen Fidler

Important shifts in position

A new maturity has entered into dealings with the US and other Mercosur members

It was Mr Guido di Tella, the Argentina foreign minister, who once described his country's relations with the US as "carnal".

Soon after President Carlos Menem assumed office in 1989, he completaly overturned Argentina's foreign policy. In a highly symbolic move, Argentina withdrew from the non-aligned movement.

In vote after vote in the UN, Argentina backed the US position – sometimes to the annoyance of its Latin American neighbours.

Diplomatic relations with Britain, broken since the 1982 war over the Falkland Islands, were reopened. And Argentina signed a host of international treaties and the Argentine armed forces have been deployed in a series of UN engagements. The idea was to appear as a reliable member of the western coalition.

Soon, says Mr di Tella, Argentina will apply for membership of the Organisation for Economic Co-operation and Development, the Paris-based club of rich nations.

Since those early days, Argentina has carved a slightly more independent track, deviating occasionally from the US line inclnding, for example, that regarding Cuba. Other differences have surfaced – in particular US criticism over Argentina's patents law. If relations are less than carnal now, says Mr di Tella, it is because Argentina's reliability as a partner has been established.

There has been another important shift since 1989 in Argentina's position in the world, one brought about by tha success – unexpected in many quarters – of the Mercosur trade grouping which ties Argentina together with its neighbours, Brazil, Uruguay and Paraguay.

Now an imperfect customs union – imperfect because there is not yet free trade within the group and a common external tariff regime to imports from outside – Mercosur has been extended by free trade associations with Chile and Bolivia. Peru is negotiating a similar association, while the other Andean countries – Colombia, Venezuela and Ecuador – are soon expected to follow.

Although Mercosur has stirred some controversy over whether it is encouraging free trade or diverting it, the bloc has become an important element in the process of negotiating a free trade area within all the Americas by the year 2005. Leaders from all over the western hemisphere agreed to create a Free Trade Area of the Americas (FTAA) at a summit in Miami in December 1994. They are expected to advance the process when they meet again in Santiago, Chile, next year.

"Wa think (the FTAA) is very good for the year 2005, but Mercosur will continue to exist," said Mr di Tella. In the mean time, the task was to deepen Mercosur to cover services and areas such as labour and the law, he said.

This strengthened Mercosur would then be in a better position to negotiate trade accords with the members of the North American Free Trade Agreement – Mexico, Canada and the US – and the European Union. Agreement with the EU has proved difficult, unsurprisingly, because not all European countries want to open markets for agricultural goods.

However, a revised EU budget by 1999 that would reduce subsidies to agriculture would provide a better backdrop for serious negotiations on this subject. Without better access for farm products, an agreement with the EU would not be worthwhile for Argentina.

"We want to be sure that we can export our products just as we allow capital goods to come to Argentina," said Mr Carlos Helbling, a foreign policy specialist in Buenos Aires.

One dispute that the Menem government has been unable to resolve concerns the Falkland Islands – the British-run islands in the South Atlantic known in Argentina as the Malvinas – over which Britain and Argentina fought a war in 1982.

In spite of the reopening of diplomatic relations with Britain, the UK remains one significant country which Mr Menem has not visited officially. Discussions over the Falklands – for example about fishing and prospecting for oil – have been conducted under a so-called umbrella, in which the sovereignty question is set aside.

Offshore oil exploration in Falkland waters has already begun after an agreement last year, while a bidding round is expected to begin within a year to explore in a so-called special zone which straddles the area between the disputed territorial waters around the Falklands and waters that are indisputably Argentine.

However, talks to secure long-term agreements on fishing have met with less success. Mr di Tella blames British action to impose a new fishing regime in South Georgia, disputed but uninhabited islands to the south of the Falklands.

The minister, who is this month scheduled to meet Britain's new foreign secretary, Mr Robin Cook, is quick to play down suggestions that he believes a new Labour party government in Britain is likely to change much. "We don't see any difference between New Labour and the Tories. One builds on what the other has done," he said.

One innovation in UK-Argentine relations was a meeting this year at the British foreign secretary's country residence at Chevening between delegations led by Mr di Tella and the then foreign secretary, Mr Malcolm Rifkind. Also in attendance were two elected councillors from the Falkland Islands.

Mr di Tella described the Chevening meeting as a "great step forward" that should be followed by further meetings of the same sort. British officials have said that the meeting followed strong signals from Argentina that it was willing to drop the sovereignty claim to the islands, but that any hopes these signals raised were quickly dashed at the meeting.

Asked about this, Mr di Tella answers cryptically: "If a lady says maybe, she may mean yes. But if a lady says yes, she is not a lady." However, there were "ingenious solutions" available that should be explored, he said.

Meanwhile, his plan is to continue attempts to reduce the islanders' distrust of Argentina. He is already thinking about what to send them for Christmas to follow up on his gift last year when he sent children on the Falkland Islands copies of Antoine de Saint-Exupéry's book *The Little Prince*. However, his advances, predictably, have been rejected by the islanders.

The shareholders of
Banco Francés del Río de la Plata
have sold their control interest to
Banco Bilbao Vizcaya
in a transaction valued at
$ 375,000,000.-
MBA
Merchant Bankers Asociados
October 1996

Sideco Americana S.A.
has sold a 50% of its direct and indirect interest in
Distribuidora de Gas del Centro S.A.
Distribuidora de Gas Cuyana S.A.
to
LG&E ENERGY
in a transaction valued at
$ 140,000,000.-
MBA
Merchant Bankers Asociados
December 1996

The shareholders of
Banco Liniers Sudamericano
have sold a 51% interest of the bank through a capital increase
to
Bankers Trust
MBA
Merchant Bankers Asociados
January 1997

Industrias Petroquímicas Argentina S.A.
has sold % of the share capital of
Polisur S.A.
and its 21.2384% participation in
Petroquímica Bahía Blanca S.A.
to
The Dow Chemical Company
for a total consideration of
$ 225,000,000.-
MBA
Merchant Bankers Asociados
February 1996

S.A. SAN MIGUEL
Initial Public Offering of 40,000,000 Class "B" Shares for
$ 78,000,000.-
MBA
Merchant Bankers Asociados
May 1997

The shareholders of
la láctea
La Láctea S.A.
have sold 100% of the company to
Coragri S.A.
MBA
Merchant Bankers Asociados
June 1997

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POLITICS • by Ken Warn

Mid-term polls cast shadow

But there is still a broad consensus about the fundamentals of economic policy

Menem: A bad defeat would deprive him of a hold on Congress and intensify divisions within his party

President Carlos Menem won re-election in May 1995 with almost 50 per cent of the vote, despite the social strains produced by the economic transformation unleashed in his first term. But now his popularity rating has dwindled to 18 per cent. Ahead of mid-term elections in October, his government appears increasingly buffeted by events.

Ministers have struggled to find a concerted response to the most intensive social protests since 1990, ranging from demonstrators in the provinces demanding jobs, to fasting teachers urging higher education budgets. Opinion polls show widespread economic pessimism and a pervasive sense of exclusion.

Clear differences between Mr Menem and Mr Eduardo Duhalde, the governor of Buenos Aires province and favourite to win the ruling Peronist party's presidential nomination in 1999, have added to the sense of drift. In addition, the government is relentlessly harried by the media over corruption.

Despite the constraints of an election year, several privatisations are being pushed through. But in the shadow of October's polls, other reform efforts have stalled. A cautious updating of labour legislation agreed behind closed doors by the government and unions in May infuriated employers and fell well short of the sweeping labour flexibility urged on Argentina by the International Monetary Fund.

However, even amid this array of troubles, there are powerful forces working in the government's favour ahead of the mid-term polls. "The Peronists will win in October, for two reasons," said Mr Rosendo Fraga, a political analyst. "The economy is growing at between 6 and 8 per cent, and the opposition remains divided."

Half the seats in the lower house of Congress, now under Peronist control, are at stake in October. Buenos Aires province, the country's most populous region, is the key battleground, where the result could have a strong bearing on the presidential race.

Mr Duhalde has played what could be a trump card by securing the top slot on the Peronist list of candidates in the province for his wife, Mrs Hilda "Chiche" Duhalde. She has not previously fulfilled any political role, other than as a loyal lieutenant to her husband. However, Mrs Duhalde heads a multi-million-dollar charitable organisation in the province, tightly organised at neighbourhood level, that opponents allege has become a powerful engine of patronage.

The centre-left Frepaso coalition is fielding Mrs Graciela Fernández Meijide, also viewed as a possible contender for the presidency, at the head of its list. The Radicals, having declined to throw in their lot with Frepaso, are headed in the province by former president Mr Raúl Alfonsín, a veteran political campaigner, although as yet registering low ratings. With the opposition vote divided, Mrs Duhalde leads in the polls.

A strong win for her would give further impetus to Mr Duhalde's presidential ambitions. He would have the freedom to forge the political alliances necessary to secure the presidential nomination while Mrs Duhalde minds the shop in Buenos Aires province.

The opposition is successfully keeping unemployment and corruption at the top of the political agenda. But it has been unable to articulate any clear alternative economic strategy. When, in May, Mr Alfonsín suggested a possible departure from "convertibility", the currency board system which links the Argentine peso to the dollar, there was no echo even from his own party.

Stealing a march on the opposition, and seeking to build a fresh image with voters, Mr Duhalde has sought to cast himself as an opposition force working from within officialdom. Despite his origins within the Peronist party machine, which has a reputation for politics at its roughest, he has sought to adopt an activist stance on corruption.

Mr Duhalde has pushed for an early resolution of the murder in January of Mr José Luis Cabezas, a photojournalist, in a case which continues to dominate the headlines, and he has begun a purge of the notoriously corrupt provincial police. He has also maintained links with Mr Domingo Cavallo, the former economy minister. Mr Cavallo, who has broken completely with the president he once served, is running for Congress on a platform urging a clean-up of government and the maintenance of economic orthodoxy.

On the social front, where the government aims to brand unemployed protesters as "subversives," Mr and Mrs Duhalde offer a more emollient approach, echoing the concerns of the Church for those who have lost out in the country's economic transformation.

Much hangs on the outcome of the October poll. A bad defeat would undoubtedly weaken Mr Menem, depriving him of a hold on Congress and intensifying divisions within his party. It would take something approaching a landslide, highly unlikely according to the opinion polls, to reawaken the prospect of Mr Menem running for a third term, a so-called re-re-election. A result between these extremes would allow Mr Duhalde to continue positioning himself for 1999.

The nomination is by no means tied up. Others are eager to step in should Mr Duhalde fail to last the course, notably Mr Carlos Reutemann. The former Formula 1 racing driver has no working class power base, the bedrock of Peronist support, but he has a "Mr Clean" image that goes down well with middle-class voters.

But whoever the Peronists choose in 1999 may well still be in the happy position of facing a divided opposition. And beneath the daily clamour, insults and allegations of Argentine politics, broad consensus about the fundamentals of economic policy remains unchallenged.

CORPORATE CULTURE • by Stephen Fidler and Ken Warn

Corruption still saps economic potential

Opinion polls say graft is the second-biggest problem, after unemployment

As the daily headlines in the Argentine newspapers amply demonstrate, the long-standing issue of corruption in government remains a powerful and important one.

Government is smaller now, thanks to privatisation, but it is not yet obvious that private sector behaviour has improved. Indeed, business practices among many companies remain questionable. "Menem has privatised corruption," says Mr Luis Moreno Ocampo, lawyer and anti-corruption consultant.

Journalists and others say it is common practice for companies to pay journalists to ensure favourable coverage of their organisations. Meanwhile, there are examples of managements misleading shareholders over issues such as the price paid for minor acquisitions.

Unlike government corruption, it is less clear that this is an issue of public policy. Stronger corporate governance and greater transparency in the publication of accounts would help. Similarly, where management is defrauding shareholders, cases could be resolved in the courts.

Argentina is nowhere near creating the kind of strong shareholder culture that has developed in the US, while the courts are widely seen as unreliable and many judges themselves open to bribes or political pressures.

One question is the extent to which the increasing economic integration of Argentina with the rest of the world has reduced the tendency towards corruption. Argentine companies listed in the US should, in theory anyway, be subject to greater scrutiny and be forced to reveal more to shareholders about their activities.

Foreign companies, increasingly large investors in Argentina, also have the potential to influence Argentina's business practices. US companies, for example, are forbidden by law to engage in corruption abroad. However, the extent to which they have influenced Argentine practice is debatable. Many companies pay fixers to resolve bureaucratic wrangles, some avoiding asking too closely what they get up to.

Every visiting US official presses home the message that corporate corruption saps away at Argentina's economic potential. But ironically, Argentina's biggest single corporate corruption case involves the local office of IBM, which stands

> At least some Argentine judges are seeking ways of recapturing lost respect

accused of arranging a bribe of up to \$37m to secure a \$249m contract with the state-owned Banco Nación.

A federal judge investigating the case has ordered the arrest of former IBM Argentina and Banco Nación officials, including the two organisation's former presidents, on bribery charges. IBM acknowledges management failures in its Argentina operation, but denies offering bribes.

The judge says he is determined to see the case through, although the decision whether to proceed rests with his superiors. If the case ever comes to trial it would send a powerful signal about the functioning of Argentine justice. Many other high-profile cases never get beyond the early stages and are quietly dropped.

Argentina may ultimately be able to strengthen its justice system – after all, in the past two decades it has both secured democracy and opened its economy to the world. Judges were held in relatively high esteem in the early days of democracy and some at least among their number are seeking ways of recapturing that lost respect.

"Justice will change because judges will change, and they will change because of changes in the political context," says Mr Rosendo Fraga a political analyst. "Ultimately, judges will want to show that they are more independent."

But when crime and dishonesty is as pervasive as it is in Argentina, "strengthening the judiciary is not enough," says Mr Moreno Ocampo.

In an effort to improve business ethics, he is promoting a system of "integrity pacts," in which companies build into contracts a clause explicitly ruling out corrupt practices. They must also agree to open up their records and to denounce any attempted corruption during the contract tender or negotiation.

Information can also be a powerful tool. Simply collating and publishing information on the prices paid for supplies by public hospitals has shown wide price differentials for the same products, highlighting possible corruption, or at the very least inefficiencies, says Mr Moreno Ocampo.

Opinion polls show that voters believe corruption is Argentina's second-biggest problem, after unemployment. But much corruption is small-scale, typically involving a junior official or employee who requests a small payment or favour for easing the path of a negotiation.

The pervasive culture is one of "you scratch my back and I'll scratch yours." Corruption is mainly about ordinary people. "It doesn't usually mean coming up against the Mafia," said one analyst.

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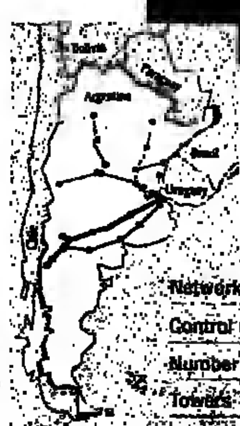
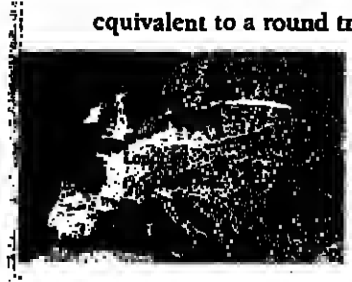


Transener is also Argentina's leading company in the transmission of extra high voltage electric power. It owns and operates a nationwide Network including more than 16,000 towers for its 500 and 220 kV transmission lines, with state of the art substations and control centers.

Its transmission lines extend more than 7,400 kilometers, a distance roughly equivalent to a round trip between London and Moscow.



These lines represent approximately 95% of Argentina's extra high voltage electric transmission system, making Transener a critical participant in an electric industry comprised of competing generators, regulated transmission and distribution companies. Transener has owned this network, the core of Argentina's National Interconnected System, since the Company's privatization in July 1993 and has the exclusive concession to provide transmission services through this network for 95 years.

Network (kilometers)	7,449
Control Centers	2
Number of Substations	27
Towers	16,975
Number of Employees	569

Transener expects to continue to take advantage of new business opportunities related to the construction, operation and maintenance of new transmission lines connected to the Network, opportunities which result from increasing demand for electricity due to Argentina's economic growth and the integration with the other members of Mercosur: Brazil, Paraguay and Uruguay.

Shareholders Composition

25% National Government

10% Employees

65% Citelec S.A.

Citelec is owned by:
National Grid Finance B.V.,
Perez Companc Group,
The Argentine Investment Company and Inter-Rio Holding Establishment

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BANKING • by Ken Warn

Foreign investors re-shape industry

The prospect of rapid growth in the sector has provoked a surge of investment

Banks bave been among the last of Argentina's industries to begin restructuring. This tardiness has left a surfeit of small, undercapitalised institutions offering inefficieot and expensive services. Few banks have been in a position to make the investment in hrancbes and technology needed to draw a wary public into tbe banking system.

However, competition has heen intensifying in the battle for customers and a wave of foreign investment led by the Spanish has shaken up the industry.

In May, Spain's Banco Santander bougbt 35 per cent, and control, of Banco Rio for $700m. It will merge Rio with its own Banco Santander Argentina to create ooe of the country's biggest private sector banks.

Banco Bilbao Vizcaya, also of Spain, aims to merge Banco Francès and Banco de Credito Argentino, both of whicb it controls, into a single operator.

And at the end of May, HSBC Holdings of the UK hought outright tbe group headed by Banco Roberts for more than $600m, intending to become ooe of tbe country's leading financial services providers.

The surge of investment has left five out of six of the country's biggest private sector banks – in terms of deposits – either foreign or foreign-controlled. The only wholly Argentine institution left among the top three is Banco de Galicia, which has raised finance internationally to boost its branch oetwork and stay competitive.

The lure is the prospect of rapid growth in one of Latin America's moat underbanked countries. Despite having the region'a highest per capita gross domestic product at more than $8,700, Argentina's bank daposits are only about 19 per cent of GDP, against more than 40 per cent in neighhouring Chile.

Successive economic crises made savers avold local banks in favour of placing money abroad, or simply holding cash. The unreliability of the telephone network also played a part in holding the sector back, according to Ms Débora Glorgo of economic consultancy Alpha. "But in five years the picture on inflation and communications has been transformed. Mix that with huge investment in hanking, and tbe sector looks set for strong growth."

Although quibbling about tbe costs, the banks can barely conceal their glee at a government move to force companies to pay salaries through the banking system. The measure would bring a whole new class of customers, with the regular incomes required to service loans, through their doors.

The privatisation of tbe post office, Encotesa, may also increase opportunities to market hanking and financial services. Some of the bidders for the loss-making system are eyeing the poat office's nationwide branch network as a possible way of bringing banking to the unconverted.

But the banks still need to sharpen up their act and cot the costs of services. "Our banks are still really small," said Mr Martin Redrado, chairman of the think-tank Fundación Capital. "They need more capltal, better credit-risk analysis, and certainly better technology. It shows in the quality of their services."

The growing foreign presence also helps ease some of the fears lingering after the Tequila effect, the wave of financial instability whicb followed Mexico's surpriae devaluation ln December 1994.

The crisis tested the system to the limits. Some $8bn, or 18 per cent ot total deposlts, fled within weeks. The central bank, like many others, was caught unawares hy the scale of the impact of a crisis in distant Mexico.

But now it claims that the financial system is in much better shape to meet a renewed panic, whether sparked by devalnation ln Brazil, a so-called Caipirinha or Samba effect, or a sudden loss of confidence in glohal markets. After the Tequila crisis, weak or insolvent institutions were merged with stronger ones or wound up. At the end of last year, the central bank, which is limited by Argentina's currency board system in its ability to act as a lender of last resort, signed a $6.1bn standby financing programme with 13 international banks to protect the system against another run.

This "repo" facility, originally backed solely by government securities, is being extended by allowing the use of mortgage assets as collateral. An additional $500m of financing is already on offer. The aim is to maintain the facility at about 10 per cent of the system's asset base, central bank officials say.

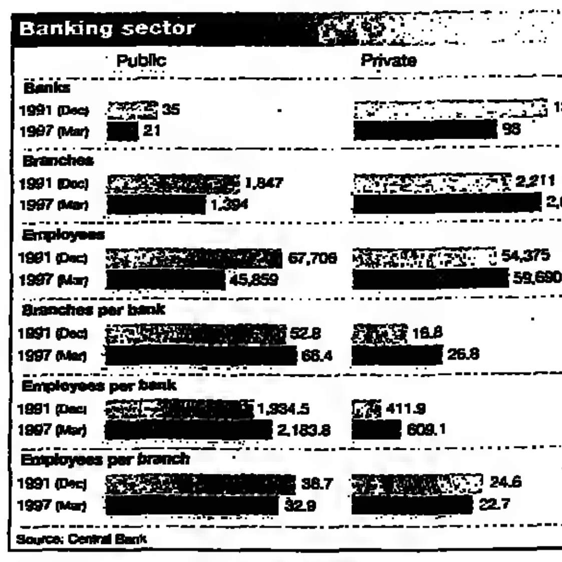
Although leading Argentine hanks managed to secure financing during the Tequila crisis, recent foreign investment means more banks have a ready source of funds should deposits take flight.

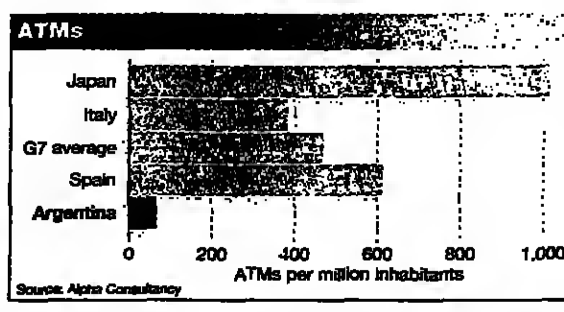
In further efforts to bolster the system, banks' liquidity requirements have been progressively increased and banking supervision stepped up. It seems to bave paid off. Deposits, rising at about 20 per cent a year, have surpassed $60bn. Credit growth is lagging at about 12 per cent, with little sign of any rapid growth in credit.

However, non-performing loans remain a problem. "Delinquency is still running at 13 per cent. But the bad record of state-owned banks takes the average up," said Mr Redrado.

The central bank is moving to improve loan quality. Unconstrained hy any privacy legislation, it is expanding an already extensive database on bad loans, both corporate and individual. It sells the information to credit providers.

With total reserves of $26bn, including the repo facility and banks' liquidity reserves, the central bank certainly has more ammunition to confront a crisis than before the Tequila. "We can't bail out the whole system," said one official. "But who can?"






Cash trucks in Buenos Aires: successive economic crises mean savers tend to avoid local banks

PRIVATE EQUITY FINANCE • by Andrea Campbell

Carving out some profitable niches

Early successes have encouraged a flurry of funds to shop for investments

Drawn by Argentina's thirst for capital and the scarcity of institutional investors to slake it, US-led private equity funds are carving out profitable niches in many industrial sectors.

With Argentina seen as less risky than Brazil and more open fiscally than Chile, buy-outs of companies in agroindustry, services and energy are turning private equity funds into the new owners of Argentina's restructured economy. They were responsible for an estimated $1bn of acquisitions last year alone.

Mr Juan Navarro, president and owner of the Exxel Group, surpassed investors' expectations when he bought half a dozen consumer goods companies between January 1993 and January 1994 for $17m. Leading regional companies which were suffering from under-invested brands, Mr Navarro proceeded to merge the companies and axploit synergies hy selling real estate, streamlining production lines and changing distribution channels. One year later, he sold the company for $95m to Clorox.

The Exxel Group – the first Argentine-based private equity fund but backed by powerful US investora including the Chase Manhattan Bank, Rockefeller & Co, tbe Ford Foundation, and the Getty Family Trust – has invested a total of $980m directly into Argentina since 1992, acquiring 18 companies with total sales of $1.9bn.

The investments are spread over sectors predicted to experience heavy growth, including the Argentine franchise for Mastercard, health care, electricity privatisations and a $440m leveraged huy-out of local supermarket chain Norte – at the time the largest transaction in Argentine history.

"There is a big imbalance of capital here," says Mr Navarro. "Companies are starved. They need capital to restructure, to build highways, to recapitalise companies; and they need management."

Mr Navarro, 44, first recognised the potential for private equity in Argentina when he was asked to head up the venture capital wing of Citibank Argentina, launched in 1987. A pioneer on the Argentine private equity scene, Citicorp Equity Investment (CEI) was created to clean up bank balance sheets by converting outstanding loans into equity stakes.

Since then, CEI has outgrown its mother company with more than $1bn in assets and holdings in the telecommunications sector, including a controlling stake in Telefonica Argentina as well as cellular telephony and cable television.

The initial success of CEI and Exxel has since encouraged a flurry of other funds to shop for investments in Argentina, adding up to $3bn in committed capltal. The list of interested parties includes South American Private Equity Growth Fund, a fund sponsored by Westsphere Equity Investors, which recently acquired food and pharmaceutical interests, and the Argentina Venture Partners, headed hy three former Exxel analysts and energy and construction magnate Mr Santiago Soldati.

Newbridge Latin America – attracted by the transport, retailing, banking and textile industries as well as $2bn in annual private pension fund growth in Argentina – landed in Argentina a year ago and is behind the Continental Airlines bid for Argentina's flagship carrier, Aerolineas Argentinas. Sponsored by the Texas Pacific Group, Franke & Co. and Richard Blum & Associates, which were behind the successful turn-around of both Continental and American West Airlines, Newbridge has a total investment capacity of $940m and has already begun spending.

In May, Newbridge bought the majority share of Alpargatos, a footwear manufacturer and Nike distributor in Argentina, for $80m. The fund, which has also opened offices in São Paulo, Brazil, and Mexico City, also controls 50 per cent of Argentina's paging market and is in the middle of three more acquisitions, said Mr Rogelio Pagano, the Argentine managing partner.

"In the last three to four years, a lot of private equity funds have come into the market and at the same time more and more pension funds are going to be developed – which are a good for exit for companies," said Mr Pagano, a former banking director at Deutsche Morgan Grenfell. "It's the right time for private equity in Argentina."

That is not to say there are no pitfalls. Heavy regulation in some sectors and a reluctance on the part of some family-owoed industries to sell-out to such non-traditional buyers are obstacles to the ever-expanding role of private equity. But perhaps the biggest threat to the future of the husiness is private equlty itself, said Mr Navarro.

As funds are being amassed hy hanks, multinational companies and private entrepreneurs, the pressure to invest may overwhelm husiness judgment – something that has happened in the region in the past.

"It's kind of scary to think who is going to be funded to execute these transacions," said Mr Navarro. "These funds have all this money and they will be forced to invest through somehody who has never done it before – and that is the danger."

FINANCIAL INFRASTRUCTURE • by Ken Warn

Chronically under-developed

Pension funds took off quickly but other developments are lagging

For what was once a great trading nation, Argentina has a chronically under-developed financial sector, stunted after years of inward-looking policies and economic turmoil. However, the policy revolution initiated by President Carlos Menem's government in 1989 has brought rapid change.

One of the most spectacular developments has been the rise of the private pension funds, known as AFJPs. The funds, designed on the successful Chilean model, were created in 1994 after the state system collapsed into near-bankruptcy.

The private system had a difficult birth. "The AFJPs began very badly," says Ms Débora Giorgi, of the Alpha economic consultancy. "A lot of people were confused by the new rules and stayed in the state sector."

However, in the 15 months to May this year, total assets under management grew 130 per cent to $6.6bn, equivalent to 2.3 per cent of gross domestic product. Santander Investment, in Buenos Aires, forecasts that hy the year-end funds under management will reach $8.6bn. And by 2002 the AFJPs could be managing almost $30bn, or about 7.5 per cent of GDP.

As in Chile, the funds are boosting the domestic savings rate and playing an increasing role in the stock market, which should gradually reduce the country's reliance on foreign capital. In April this year $1.3bn, or 20 per cent of total funds, was held in equities.

The funds are allowed to invest in 30 of the companies listed on the Buenos Aires stock exchange. Recently they have been turning their attention away from the market giants such as YPF towards smaller companies. The 21 funds notched up an average rate of return of 22 per cent in their last financial year.

Membership is growing at a monthly rate of 1.1 per cent, amid fierce competition for customers and a high level of switching between funds. The government has expressed concern about the high commissions faced by new entrants and is looking at ways of making these charges less onerous, particularly for low earners.

Although the pension funds were quick to gain momentum, other financial sector developments are lagging. "Mutual funds are in a very embryonic state," says Mr Pedro Batalla, of the International Finance Corporation, the World Bank's private sector affiliate. "The retail industry for individuals barely exists."

However, banks have started offering mutual fund products to their customers, and Fidelity, the biggest US mutual fund manager, opened a Buenos Aires office in June.

Mortgage business was another laggard. But financial stability and a fall in the cost of credit has brought fast growth to the tiny market. Outstanding loans for housing, totalling about $6bn, are growing at about $150m a month.

The privatisation, due to begin later this year, of Banco Hipotecario Nacional, the state-owned bank with almost 33 per cent of the mortgage market, is expected to give further impetus to the sector.

The central bank is working to standardise mortgage agreements, partly to allow the securitisation of mortgage assets. As the banking system grows, banks will need more capital and are expected to seek ways of unloading their mortgage assets to raise finance.

The bigger banks will have little problem hundling their mortgage assets and issuing bonds on the back of them. But the IFC is trying to develop a mechanism for smaller banks to follow suit. A local institution called Argie Mae, after the US Federal National Mortgage Association (Fannie Mae), is being set up by local banks and the IFC to package and securitise mortgages from smaller institutions. The IFC in June approved a $100m stand-by facility to allow Argie Mae to begin operations.

In other areas, Argentina is only just starting to put into place a modern financial infrastructure. Leasing, for example, was almost non-existent because of legal constraints.

The inadequacies of the financial infrastructure have starved smaller companies of capital and hindered start-ups, making it harder for Argentina to tackle its high unemployment rate.

However, access to credit is slowly getting easier. Banks are becoming more willing to lend to smaller enterprises, although they usually demand guarantees from bigger companies. Venture capital is more readily available. But there is a long way to go. "Medium-term finance for medium-sized companies is still a problem," says Mr Batalla.

LAUTREC

Galicia at a glance.

Banco de Galicia y Buenos Aires S.A.

Company Overview

Banco de Galicia is the largest private bank in Argentina's financial system in terms of assets / deposits and branch network size.

As an universal bank, Galicia provides a full range of financial services to individuals and corporate customers, both in the areas of commercial banking, investment banking and capital markets. It conducts significant banking activities overseas through its subsidiary Banco de Galicia y Buenos Aires (Uruguay) SAIFE, the largest private financial institution in Uruguay; its branch in New York; representative offices in Brazil, Chile and in the United Kingdom; and a vast correspondent banking network covering the world's major financial centers.

Founded in 1905, the Bank has been listed on the Buenos Aires Stock Exchange since 1907. Its stock is also traded on the National Association of Securities Dealers Automated Quotation (NASDAQ) stock market since June 1993. Galicia was the first Argentine bank to access the euro capital markets through its November 1991 debt issue. It was also the first Latin American bank to raise equity via an international public offering in the USA and Europe. In addition, it was the first Latin America issuer to successfully place a subordinated convertible bond in the international market in August 1994.

Selected Financial Information (*Millions of US$)

	03/31/97 (*)	FY 1996	FY 1995	FY 1994
TOTAL ASSETS	9,310	7,770	5,551	5,093
LOANS	5,353	5,000	4,057	3,595
DEPOSITS	5,413	4,599	3,354	3,304
NEGOTIABLE OBLIGATIONS	693	767	662	441
SHAREHOLDERS' EQUITY	815	619	553	503

(*) 3rd. Quarter Fiscal Year 1997

Network

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NUMBER OF BRANCHES AS OF 06/30/97	
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Greater Buenos Aires	56
Rest of Argentina	77
Uruguay	5
United States of America	1
Total	213

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ARGENTINE REPUBLIC

AGRICULTURE • by Ken Warn

Prosperity after years of neglect

Foreign investors are responding to the turnaround in the sector's prospects

Not all the news from Argentina's provinces is bad. While images of angry protesters demanding jobs from the government have filled the nation's television screens, steady recovery in the agricultural sector has been bringing renewed prosperity to some rural communities.

Farmers have been buying more tractors and cars, stores and supermarkets have been opening in farming towns and there has even been some reverse migration from the cities.

But the change has been a long time coming. The sector which powered Argentina's development from the late 19th century, briefly turning it into one of the world's richest nations, has suffered 50 years of low investment levels.

That may now be working to the country's advantage. "In some ways the neglect has been quite beneficial," said Mr Chris McMaster, director of the agricultural investment company Cosechar en Argentina. "We haven't over-used fertilisers or irrigation and can modernise the sector from a good basis."

Agro-industry exports last year reached $8.8bn – 80 per cent higher than in 1990. The 1996-97 grain harvest is at record levels, despite a severe drought affecting important growing areas.

Prospects for the beef industry, once the mainstay of the whole economy, have brightened this year, despite continuing low prices and the blows to beef's image caused by the outbreak of bovine spongiform encephalopathy (BSE) known as "mad cow disease", in Europe.

In May, Argentine herds were declared free of foot-and-mouth disease, with vaccination, after a long campaign. In addition, the US Congress is weighing an Administration decision to open American markets to a limited amount of Argentine beef – the first such sales in more than 60 years.

The move would send a powerful signal to other consumers. "If we could export the planned 20,000 tons of beef to the US, it would open up Pacific Rim markets for us," said Mr Andrew Wrigley of agricultural real estate agents Madero, Lanusse, Belaustegui.

Argentine beef, fed on grass, is protected from the scourge of BSE, while the industry's cost structure is unaffected by fluctuations in grain prices.

The economy ministry predicts that meat exports will rise by more than 70 per cent from last year's levels to 800,000 tons by the year 2000.

The turnaround in agriculture's prospects has not gone unnoticed by foreign investors. The attractions of vast and relatively cheap tracts of land have been boosted both by the opening of the economy and infrastructure improvements. Arable land prices have been rising strongly, but are still less than half US levels and a fraction of those in Europe.

In the north, forestry has been attracting a lot of investor interest, particularly from Chile, said Mr Wrigley. The industry, with its long-term investment requirements, had been stunted by Argentina's high inflation. Chileans have also been moving into the fast-updating wine industry.

Only Patagonia, traditional home of sheep farming, has been missing the new optimism, due to the continuing world slump in wool prices. The number of sheep has collapsed from almost 60m in the 1950s to about 14m today. Italian clothing manufacturer Benetton has bought land in Patagonia, but few others have followed.

However, by far the best-known newcomer to Argentine agriculture is Mr George Soros, the Hungarian investor, whose Quantum Industrial Partners owns about 30 per cent of the agricultural company Cresud.

The company, originally comprising seven farms totalling just 20,000ha, was taken over by a group of Argentine and international investors in 1994. Its properties now total more than 340,000ha, of which about a fifth is under exploitation.

Cresud's strategy is to buy or lease land in different areas so as to spread the risk from adverse weather conditions, using new technology and economies of scale to boost margins. "The average Argentine farm is about 500ha, whereas a Cresud farm is a minimum of 2,000ha," said Mr Alejandro Elsztain, chief executive officer.

Its rapid expansion is based on a simple premise. World demographics and falling grain stocks, plus rising incomes and changing eating habits in areas such as south-east Asia, are set to increase demand for Argentine produce.

The path for Cresud and other investors is eased by good land title records in agricultural areas and a long tradition of leasing. About a third of Argentine land under production is farmed by third parties. Leases can be agreed for any length of time and rents can even be pegged to a basket of commodity prices.

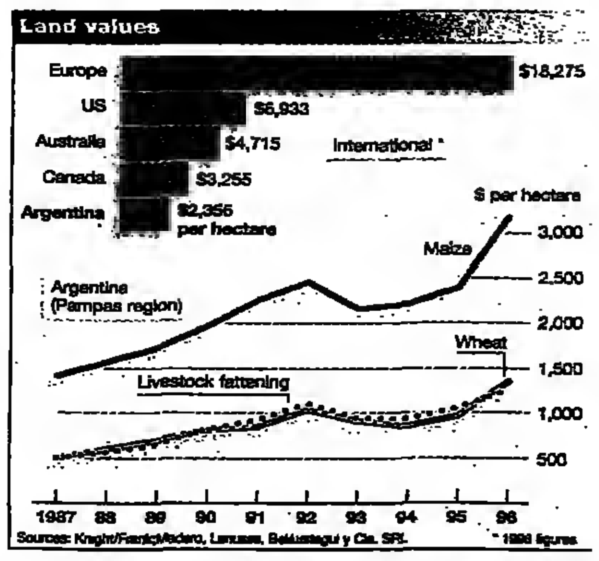
Argentina also has a pool of well-trained agricultural specialists, and strong research and development. Export taxes have been abolished, as has the inefficient grain board which farmers were obliged to sell to.

However, farmers still suffer from high property taxes levied by provincial governments and municipalities. The cost of capital has been decreasing, but remains high.

Despite recent improvements, freight costs remain a burden. "Shipping produce 400km to a port costs $20 a ton. That's almost the same as from Buenos Aires to the US," said Mr McMaster. The privatised rail network is only just beginning to attract interest from big producers as a possible alternative to road transport.

Despite these drawbacks, Mr Elsztain believes agriculture could once more become the great locomotive of the economy. But the industry looks as if it will be in fewer hands and under more professional management.

"The days of owners just sitting in their Buenos Aires apartments while their ranches make them money are over," said one analyst.



MINING • by Ken Warn

Prospects transformed

The cornerstone of the new mining law is tax stability for mine operators

Latin America's colonial rulers never found significant mineral deposits in what is now Argentina, neglecting this distant outpost of their empire as a result.

More recently, the country has looked to the fertile Pampas for its wealth. No one believed that the rich mineral deposits that have underpinned the Chilean economy actually stopped at the border with Argentina, but economic instability, social upheaval and an unfavourable tax regime gave few incentives for exploration.

Throughout the 1980s, mining remained a marginal activity, tightly regulated and propped up by state spending. But economic stability and an overhaul of mining law in 1993 have transformed the industry's prospects.

This year mining will register its first trade surplus, the economy ministry forecasts, with exports outstripping imports by about $100m. By the year 2000, mineral exports could reach $1.3bn, giving a trade surplus for the sector of about $1bn.

Production from the $1.1bn Alumbrera copper and gold mine, the country's biggest mining project, in Catamarca province in the north-west, is expected to start before the year-end after four years' work.

By 2000, Alumbrera is predicted to be the world's ninth-largest copper mine, producing 190,000 tons, and the 14th-largest gold mine, with 730,000 ounces of gold production. A copper mine with gold as a by-product, it will still be Latin America's biggest gold source.

The cornerstone of the new mining law which has made Alumbrera and other investment feasible is tax stability for mine operators. A provision guarantees that the tax level prevailing when a mining feasibility study is presented will remain in force for 30 years. The law also provides for accelerated depreciation on mining equipment.

Another key change allows mine operators advance rebates on their goods and services tax payments. Exporters pay the tax up front, later claiming rebates in proportion to their foreign sales. Without the change, mining companies, with their long lead times, would have been be forced to wait years for the rebates, despite their huge capital costs.

In another effort to ease the path for investment, talks are well advanced for a joint regime with Chile to cover mining developments that straddle the border.

One thing, however, is unchanged from the days of Spanish rule in Latin America. The Argentine state claims the right to all the wealth of the subsoil, regardless of who owns the actual land. "This goes back to the Spanish tradition that the fruits of the land belong to the king," said Mr Alieto Guadagni, the industry and mining secretary. "We do not plan to change this principle."

The rights to exploit oil, gas and mineral deposits have been devolved to provincial governments, and are let out under concession. However, royalties have been cut back to a maximum of 3 per cent on pit-head value, against anything up to 15 per cent under the previous rules. The Spanish Crown would have taken up to a fifth.

"The mining law changes have made Argentina strongly competitive internationally," said Mr Peter Freund, president of Minera Alumbrera, a joint venture created to exploit the Alumbrera deposits. The company groups MIM Holdings and North, both of Australia, with Canada's Rio Algom.

The Alumbrera project was undertaken in the face of fearsome logistical problems, requiring huge investment in transport infrastructure. Treated copper concentrate from the open pit mine will be pumped 240km by pipeline over mountainous terrain to a rail head near Tucuman. A second, permanent, pipeline is being built over a 315km route.

The concentrate is then dried, loaded on to the company's rail wagons and transported another 830km to a purpose-built port near Rosario in Santa Fe province, for shipment abroad.

In the next few weeks Alumbrera hopes to start testing equipment. By mid- to late August it should be putting concentrate into the transport system. It will take two months alone to fill up the pipeline.

Also due to begin production this year is the $100m Salar del Hombre Muerto mine project, also in Catamarca province, which is ultimately expected to supply up to 30 per cent of world demand for lithium.

Construction has begun at the Cerro Vanguardia gold mine in Santa Cruz province in the south. The mine, owned by South Africa's Anglo-American and Argentine energy and industrial group Perez Companc, is due to start production in the second half of next year.

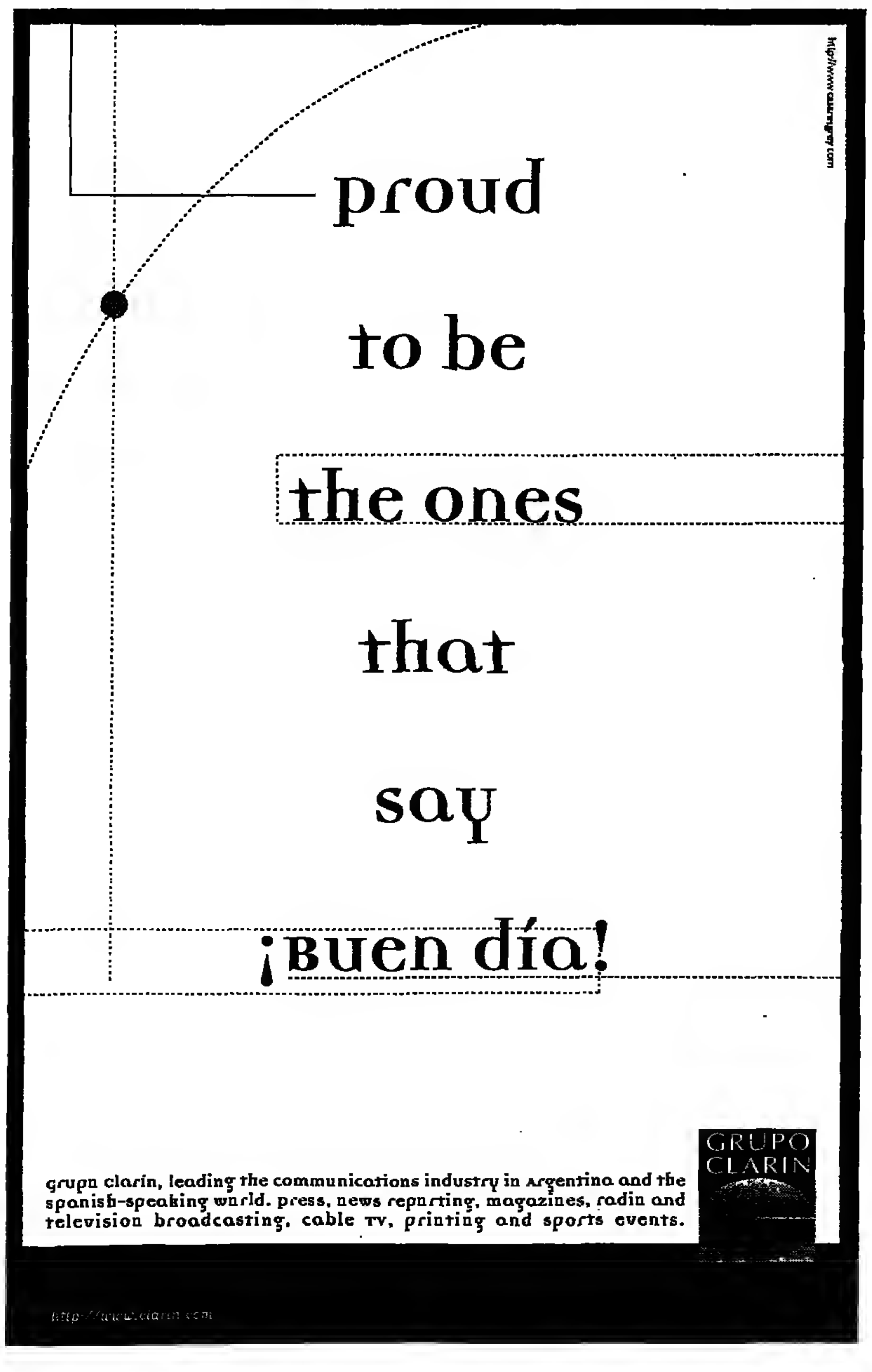
These developments are bringing work to poorer provinces that have had little share in Argentina's agricultural wealth.

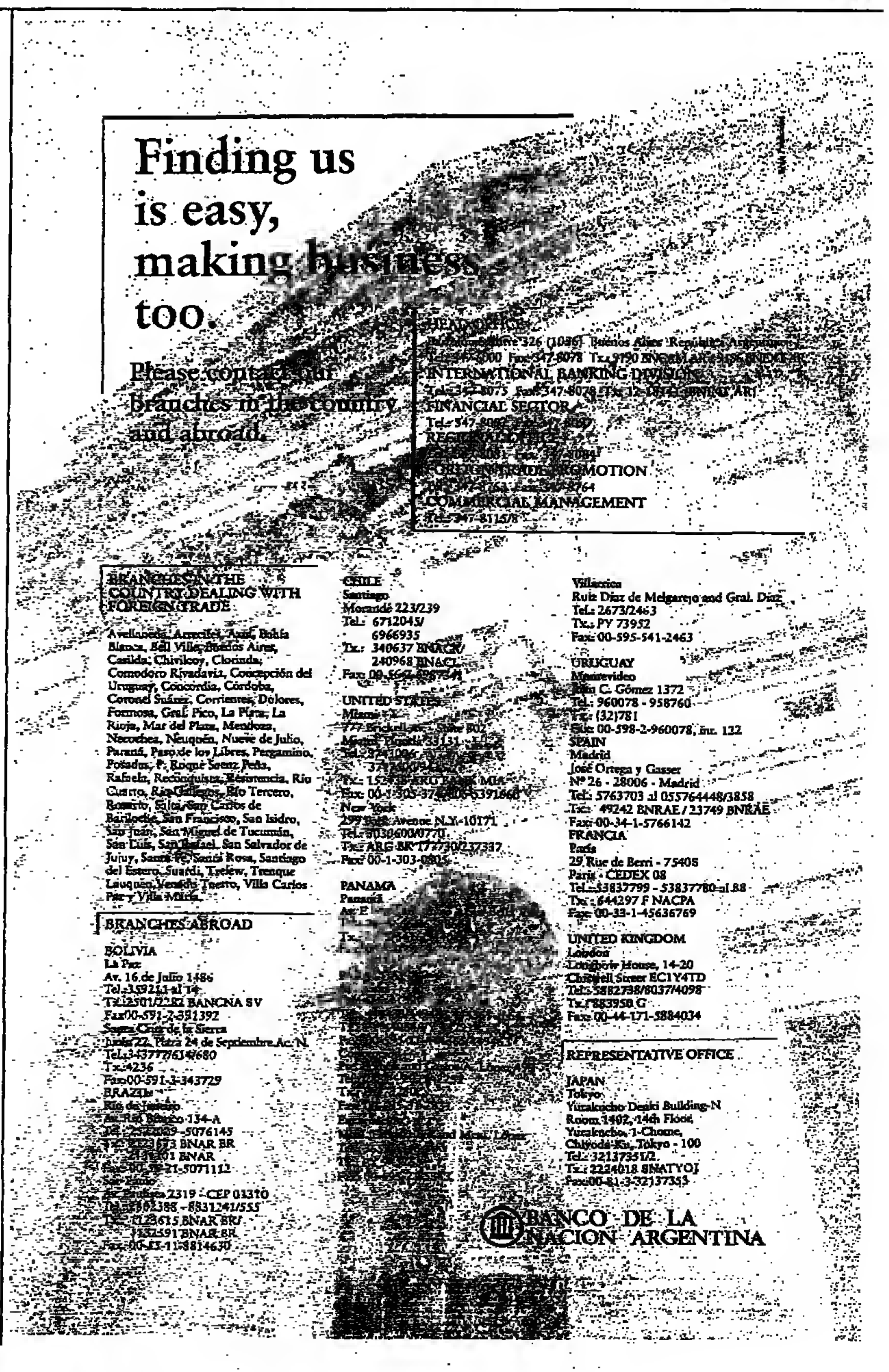
Mining companies still face some obstacles in Argentina. They complain that the government's desire for the industry to develop has been slow to filter down to local officials. In addition there is no common survey grid for the whole country. Land title records outside traditional agricultural areas are sometimes incomplete or even non-existent, leading to delays or costly legal entanglements.

Nonetheless, the prospect of further big finds has lured a host of Australian and Canadian companies, both "juniors" and "majors", to what is still largely virgin terrain for the industry. "There are about 75m hectares to be explored, with only about 18m being looked at at the moment," said Mr Freund.

"If Argentina can maintain stability, this has got to the most under-explored country in the world with favourable legislation and conditions," he said.


Production from the $1.1bn Alumbrera copper and gold mine is expected to start before the year-end





SWEDISH BANKING AND FINANCE

The sector has restructured and returned to profit, but foreign competition and absence from Emu pose new threats. **Greg McIvor** and **Christopher Brown-Humes** report

Rivals merge for a competitive edge

Sweden's bankers and financiers may feel more in need of a holiday than usual as they set off this week for their country cottages at the start of the traditional July summer break.

A blaze of restructuring in the last six months has set pulses racing across the financial services sector, consuming the energy of executives and investors. As they peer into the future, few foresee much slackening of the consolidation trend. The beckoning challenge of a single European currency, and ever-increasing competition for business among banks and insurers, suggests pressure for rationalisation will remain intense.

Only a few years ago, in the early 1990s, obituary writers were out in force as Swedish banks staggered under the weight of massive losses. Today, the crisis has been left behind. Tough management medicine has streamlined the banks, transforming them into among the most profitable and cost-competitive in Europe. Balance sheets have been rehabilitated and profits last year hit record levels.

Symbolising the turnaround, Securum, the state "bad bank" created in 1992 to manage distressed assets of Nordbanken and the now-defunct Gota Bank, was wound up last week. It has recouped nearly SKr13bn through asset sales in one-third of the time and at half the cost to the taxpayer originally forecast. Indeed, the state stands to claw back almost all of the SKr65bn it expended to bail out the banking system in 1992 – if dividends, privatisation revenues from Nordbanken and values of existing holdings are included.

Economic conditions have supported the banks' strong progress. A depreciation of the krona has boosted demand for investment capital, particularly from Sweden's big export-focused corporations, while low interest rates have also encouraged borrowing – reflected in a 4 per cent increase in house prices this year.

Nevertheless, overall growth across the banking market is anaemic. Interest margins are under constant pressure as banks and insurers thrust deeper into each other's territories. Meanwhile, increasing numbers of foreign banks are establishing operations in Sweden.

Foreign banks have, until now, gained only small market shares. This may change, however, as European monetary union approaches. Faced by strongly negative public opinion, Sweden's Social Democratic government has opted out of participation in Emu's first wave. For the banks – and for Stockholm as a financial centre – this poses problems.

Most economists agree that staying out will confer a higher premium on the issuance of government bonds. Nor will Sweden be any more able to pursue looser fiscal policies outside the union than inside. On the contrary, says Mr Anders Nyren, a senior vice-president at Nordbanken. "We are even more dependent on adhering to the Emu convergence criteria if we stay out than if we go in."

Inside or outside euro territory, Swedish financial institutions face growing competition from foreign rivals. A European-wide trend of integration and concentration of business in large financial centres is in progress. "Competition is going to increase with Emu, that is for sure. The euro will become the main invoicing currency for large companies and that will make it necessary for the banks to move into the continental arena," says a foreign banker in Stockholm.

Having pruned costs and seen credit losses drop to normal levels, Sweden's banks are turning to mergers and acquisitions to boost revenues and market shares. In little more than six months, the banking landscape has been transformed into a near-oligopoly. Svenska Handelsbanken, the country's largest bank, has acquired Stadshypotek, the leading mortgage lender. Swedbank and Föreningsbanken, two retail-based banks, have merged to form the country's second biggest bank, and Den Danske Bank of Denmark, has purchased Östgöta Enskilda Bank, a regional bank – marking the first significant incursion by a foreign bank into the retail market.

This dizzying round of deals would have heen capped by a merger between Skandinaviska Enskilda Banken and Nordbanken, the other two remaining big banks, had it not been for a failure to agree on ownership structures. But so substantial are the prospective synergy benefits that many analysts believe the two managements will eventually return to the negotiating table.

Certainly, Mr Lars-Eric Petersson, chief executive of Skandia, Sweden's largest insurance group, is in little doubt that more activity is pending. "I believe we will see more inter-bank mergers and mergers between insurers in the next two to three years," he says. "In the wave after that, we will have banks and insurers getting together both on a national and Nordic level."

This is looking ahead. Current reality is that while the banks set a scorching pace in the restructuring race, insurers are atill on their starting blocks. Skandia did try to take over Stadshypotek before being ontbld by Handelsbanken, and Trygg-Hansa, the second-largest insurer, has been rebuffed in its attempt to acquire Wasa, a smaller competitor.

Nonetheless, both groups look exposed as the dividing line between banks and insurers blurs. The banks have been more successful growing their life assurance operations than the insurers have been in attracting customers to their banking products. Niche banks launched by the insurers in the past three years have had some impact on pricing and distribution, but their growth is tapering off.

Mr Lars Thunell, Trygg's chief executive, admits "the banks have been very successful with some insurance products" but emphasises his company still managed to gain market share last year owing to rapid growth in the savings market. That growth is underlined by a sharp increase in the popularity of unit-linked funds, as savers have moved money into products offering higher returns than low-interest rate bank deposit accounts.

This treod has created a strong rise in liquidity on the Stockholm stock exchange – a phenomenon which will be accentuated if the government allows big state pension funds to invest more in equities. Whether this will go ahead is uncertain because of political factors. The main conservative opposition Moderate party is opposing the initiative on the grounds that it would increase state ownership of Swedish companies.

The stock exchange itself is at the centre of a radical restructuring of financial market infrastructure. Last *month* it launched a joint equities trading market with the Danish bourse, the first cross-border move of its kind in Europe and seen as a possible first step to the creation of a joint Nordic market embracing Norway and Finland. It is also exploring a link with the OM Swedish derivatives exchange to create e combined market for equities and derivatives trading, although a planned merger between the two recently foundered on disunity over the proposed ownership structure.

Underpinning such ambitions is the rapid development of technology. Swedish banks are among the global leaders in areas such as telephone and internet banking, reflecting a high level of personal computer penetratioo and high staff costs. Trygg Bank, Trygg-Hansa's niche bank, launched its internet banking aervice in April. Some 16 per cent of its bank customers have already used it to pay their bills.

In this light, it is unsurprising that some question whether branches are an asset or a liability. "I think branches will continue to be an important cootact point with clients, but they are being partly replaced by information technology," says Mr Jacob Wallenberg, new chief executive of Skandinaviska Enskilda Banken.

As technology develops, so the argument for rationalisation becomes more compelling. With frontiers being dismantled across Europe, Sweden's banks and other financial institutions are moving into exciting – and unsettling – times. No looger can they measure themselves merely against Swedish competitors; they increasingly must compete against large-scale international interests.

The level of structural manoeuvring already seen in 1997 demonstrates a strong degree of alertness to the challenges ahead. More will need to be done to remain competitive. The restructuring race is not yet won.

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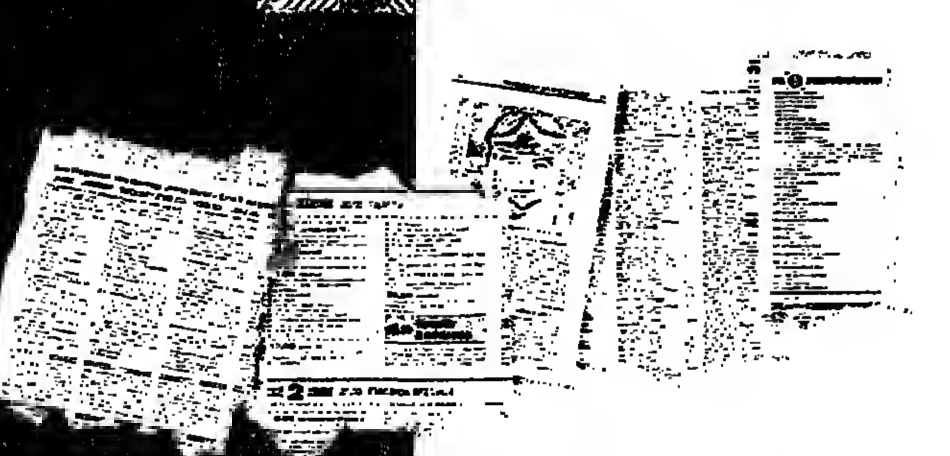

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THE ECONOMY • by Tim Burt

Balanced but unpopular

Fiscal control is working – but at the expense of traditional welfare planning

Erik Asbrink: Praying for a shift in public opinion to his policies Photo: Colin Beere

Per Johannsen does not see mucb evidence of an economic turnaround in Sweden. The 19-year-old college graduate, who lives in one of tbe more leafy suburbs of Stockholm, has signed up for 10 mouths' national service at an Arctic military base "because there is nothing else for me to do".

The teenager would otherwise become one of tbe estimated 50,000 Swedes forecast to join tbe ranks of the unemployed this year – an increase likely to pusb tbe jobless total beyond 12 per cent in 1997. At about the time Mr Johannsen is flying oorth to join the army, his father will be flying to join fellow Swedish engineers who bave been relocated to the UK.

According to some economists, the Johannsen family upbeaval reflects the changed economic circumstances forced on a country where tbe idea of full employment and steadily increasing inward investment has either disappeared or been seriously eroded.

It is an unhappy experience for tbe many Swedes who believe that being boro in Scandinavia confers a rigbt to generous welfare benefits and a virtual guarantee of work. Sadly for them, times have cbanged and Sweden – like otber countries in western Europe – has endured recession, exchange rate volatility and an outflow of industrial investment.

Tbat realisation has dented the popularity of the minority Social Democratic party government, whicb is grappling with the conflicting demands of financial markets advocating spending restraint and tax reform, and an electorate unhappy at the changes.

While public support for the SDP may have cooled, the centre-left government bas rightly won acclaim for tackling the problems inherited from its Moderate party predecessors. Since returning to power in 1994, tbe Social Democrats have pursued a tight fiscal policy and curbed public spending in a bid to cut the government deficit and tame inflation.

The economy bas sbown significant signs of improvement. The government deficit has been cut from 12 per cent of GDP in 1993 to 2 per cent this year, with every prospect of breaking even in 1998 and a 2 per cent surplus in the years ahead. Inflation has been brought under control: it is forecast to exceed oo more than 1.7 per cent this year and 1.5 per cent next. Economic growth, meanwhile, is projected at 2 to 3 per cent this year and 3.5 per cent in 1998.

Productivity is on the increase and export orders are relatively buoyant. Corporation tax is low by most European standards. And there are signs that the government may introduce tax breaks for small and medium-sized enterprises, while also addressing the anomalies of Sweden's wealth tax.

That relatively sunny outlook bas been helped by interest rates that have fallen from 11 to 6 per cent for five-year bond rates, while the independent Riksbank has cut the repo rate from 9 per cent at the beginning of last year to a little over 4 per cent – its lowest level in 30 years.

So far, so good. But many private sector economists suspect tbe SDP has embraced financial probity because it had no choice, and not because it has any genuine appetite for cutting spending in a country where the public sector still employs more than one-third of the workforce.

"The government may have balanced tbe public finances but it has done so in a way that is unbalancing the economy througb low growth and high unemployment," according to Mr Per Magnus Wijkman, cbief economist at the Federation of Swedish Industries.

His counterpart, Mr Jan Herin at the Confederation of Swedish Employers claims the SDP, remains "more wedded to power than the economy", and fears a return to tax-and-spend policies ahead of the 1998 elections.

Mr Erik Asbrink, the minister of finance, rejects that scenario. He says any budget surplus could be used for modest tax cuts and to reduce government debt in absolute terms. He denies opposition claims that the money will be used only to bolster local autbority coffers and fund training programmes.

Mr Asbrink, bowever, may be forced into a rethink by SDP colleagues, many of wbom believe the party has a duty to stem any increase in public sector job losses. While the economic prospects have clearly improved since 1993, his critics maintain that his ability to pusb through reforms bave been hamstrung by the SDP's close ties to tbe unions, wbicb are determined to oppose any relaxation of Sweden's rigid labour market. The government bas been further constrained by its alliance witb the Ceotre party, which has demanded the progressive closure of the country's nuclear power plants as tbe price for its parliamentary support.

"The government is a hostage to the Centre party on nuclear energy and to the unions on labour," says Mr Nils Lundgren, chief economist at Nordbanken. "Coupled with the lack of economic reform, that has proved a deterrent to investment and all we are seeing is jobless growth."

That view is sbared at Sveoska Handelsbanken, where the chief economist, Mr Carl Hamiltoo, fears that recent growth has enabled the government to avoid making structural changes to tbe welfare system, while also deferring a decision on joining the European single currency – a prospect treated with enormous scepticism by many Swedes.

"The failure to reform tbe labour market, the high-cost energy policy and lack of leadership on Emu [European economic and monetary union] all points to a government without economic credibility," says Mr Hamilton, a former Liberal party member of the Riksdag. In pnblic, at least, Mr Asbrink and his government are not yet prepared to admit that Emu membership could cure Sweden's stop-start economic cycle.

Government supporters, meanwhile, say it has gooe much further than expected in bringing the economy under cootrol and claim that structural reforms could not be contemplated until sound public finances were achieved.

Now that they have been, it is probably too late for reformist members of the SDP – including Mr Asbrink and the prime minister Mr Göran Persson – to consider far reaching changes to the tax and welfare system in tbe run up to next year's general election.

By the time Per Johannsen returns from bis national service next spring, the SDP bopes Sweden will still be enjoying tbe kind of economic growth and low inflation that should – in theory – stimulate job creation. If Johannsen and his fellow voters are convinced, the SDP could be returned to power only to face a much more thorny problem – how to modernise an economy that still breeds public sector dependency and seems reluctant to embrace wholesale reform.

PROFILE Erik Asbrink, finance minister

Further surgery for improving patient

The Swedisb minister of finance rests his chin on his hands and admits, rather gloomily, that his government's economic policies have done little to improve his popularity.

For Mr Erik Asbrink, the 50-year-old former civil servant in charge at the Finansdepartementet, is the man responsible for trying to wean Scandinavia's largest economy off its long-term addiction to high wage settlements and generous doses of government spending. And be knows further painful surgery is required before it can be declared fully fit.

Outlining his policy objectives, Mr Asbrink studiously ignores the large oil painting dominating his Stockholm office. It depicts a weary horse dragging a sledge through the snow.

The effort required to shift an economy labouring under the burden of an inflexible labour market and a costly welfare system is proving equally gruelling for the ooe-time research economist and central bank chairman.

"I am working for sound public finances and low inflation, while also addressing structural (economic) reforms," he says. "All of these measures are difficult, and many of them are onpopular."

But be and his predecessor, Mr Göran Persson – the current prime minister – have defied the scepticism of some economists and opposition politicians by restoring Sweden's public finances following the deep recession of 1991-93 and the ensuing financial crisis.

Tight fiscal policies and a curb on public spending has helped reduce the budget deficit from 12 per cent in 1993 to 2 per cent this year. And most economists now agree that Sweden should achieve a balanced budget in 1998 and a surplus beyond that.

That is very pleasing to Mr Asbrink, whose supporters also cite him as the architect of the 1990-91 tax reforms which, for the first time, began to reduce Sweden's onerous income tax levels. That showed, according to his aides, that be will not shirk difficult political decisions.

But his critics, among them the chief economists of Sweden's two largest employers organisations, claim those initial reforms were like climbing foothills compared with the mountains ahead for the country's minority Social Democratic government.

Mr Per Wijkman, chief economist at the Federation of Swedish Industries, says Mr Asbrink and his party have shied away from the twin challenges of liberalising the labour market and further rednciug taxes and public sector spending.

"If these things are not addressed we will muddle through with a depreciating exchange rate, excessive wage settlements, and an increasing number of companies may move abroad," he adds. "The industrial base will be weakened and the public sector will no longer be affordable."

That doomsday view is partially echoed by Mr Jan Herin, chief economist at the Confederation of Swedish Employers. He says Mr Asbrink has not fulfilled the hopes of a business community that expected him to champion their cause after quitting as managing director of Wasakronan, the state-owned property group, to become finance minister last year.

That is a little harsh. Mr Asbrink has probably moved as fast as the left-leaning Social Democratic party could tolerate. His instinct, one suspects, would be for rather bolder changes to the welfare system and an open declaration in favour of European economic and monetary nnion (Emu).

Of course, Mr Asbrink himself is far too wily to admit it. To do so would not only defy the SDP's wait-and-see line on Emu, but would almost certainly compromise its chances at next year's general elections. Given the deep antipathy in Sweden towards the single currency, it could be political suicide to embrace it now.

Mr Asbrink, however, is enough of his own man to warn his countrymen not to blame Brussels for high unemployment and relatively modest growth. "People think wrongly that the requirements of meeting the convergence criteria have caused the pain of unemployment," he says. "That is a mistake."

He believes the government can begin to address those problems by considering tax breaks for small and medium-sized businesses to help stimulate investment, and thereby, job creation. This September's budget may also include measures to improve the supply of venture capital and encourage start-up entrepreneurs.

Critics claim this is just cosmetic surgery. But Mr Asbrink – who keeps a parachute in his office, a gift from his Wasakronan colleagues – does not accept that. He realises any economic reforms that threatened the Swedish electorate with a hard landing would be politically unacceptable.

"As minister of finance, what you regard as economically necessary must be made politically possible," he adds. "That sometimes leaves you with a narrow course to follow."

Tim Burt

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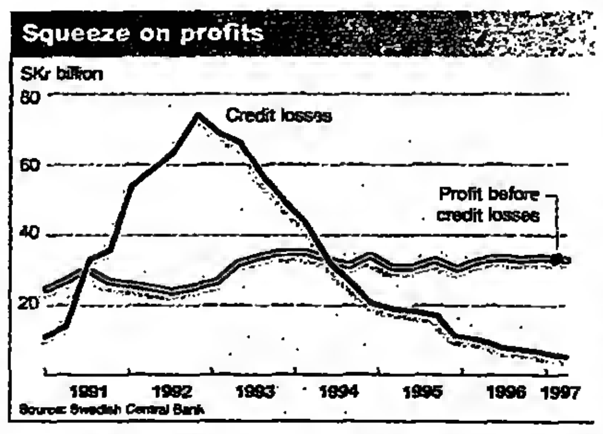
BANKING • by Greg McIvor

Streamlined survivors

Competitive pressures are rising, forcing rivals to work together



Rarely have the cbairmen and chief executives of Sweden's big banks spent as much time in each other's company as during the past year or so.

As a wind of restructuring swept through the financial sector, banks and insurers have been searching their rivals for potential partners. "Everyone has been talking to everyone," says one chief executive.

A flurry of big deals have already taken place and the shakeout is set to continue as Sweden's financial institutions confront stiffening competition and sluggisb growth in their core markets, and the looming challenge of European monetary union.

The tie-ups include some of the biggest seen in Swedish banking. First came the SKr23bn purchase early this year by Svenska Handelsbanken of Stadsbypotek, the mortgage lender – a deal which entrencbed Handelsbanken's position as the country's largest bank.

This was followed by the merger of Föreningsbanken, tbe former farmers' bank, with Swedbank, the commercial bank. The new entity, to be christened FöreningsSparbanken, leapfrogs Skandinaviska Enskilda Bankeo and Nordbanken as Sweden's second-largest bank.

Meanwhile, Den Danske Bank, Denmark's largest, bougbt Ostgöta Enskilda Bank, Sweden's sole remaining provincial bank.

Spurring this hum of activity is the vastly improved health of tbe banks following a deep financial crisis in the early 1990s. Then, massive loan losses brought the demise of ooe retail bank and obliged tbe state to shore np several others.

But the recovery from tbose difficulties has been strikingly robust. Credit losses have receded to about normal levels and Sweden's banks are now among the most profitable in Europe. Average return on equity among the six main banks and mortgage lenders was 17 per cent last year.

A sharp drop in interest rates and a depreciation of tbe krona has driven the upswing, boosting the earnings of big exporters and buoying lending volumes. However, interest rates are now seen as having reached bottom, and little scope exists for further big falls in credit losses. In a market offering little overall organic growth, banks have looked to improve margins by pruning costs.

Crisis-induced efficiency drives at all the main banks bave reduced workforces and raised productivity, belped by the introduction of new technology. But tbe impact of these measures is now slowing: bence the banks' desire for acquisitions to cut costs and boost profitability.

Only two banks – Nordbanken, which is 58 per cent owned by tbe atate, and Skandinaviska Enskilda Banken, the financial cornerstone of tbe Wallenberg industrial empire – bave stood outside the restructuring loop.

The two called off merger talks in February after they could not agree terms for a tie-up. Such are the potential synergies – some 18 per cent of combined earninga according to one banking analyst – that many believe a deal may yet happen.

SE-Banken has indicated a desire to focus more closely on its main corporate lending and trading operations. Cutting its exposure on the retail side – where it does not have a market-leading positioo – would seem logical. Spinning off retail operations to Nordbanken – a favoured solution among analyats – would unleasb large potential for stripping out costs and achieving operational aynergies.

Both banks are keenly aware that competitive pressures are rising. Insurers bave moved aggresalvely into the market by offering banking products througb ao-called "nicbe" banks. These have captured significant market shares by harnessing new technology auch as internet and telephone banking.

In addition, foreign banks sucb as Citibank, of the US, Banque Indosuez and Crédit Lyonnais, of France, and SBC Warburg, the UK-based investment bank, are present on the Swedish market.

Encouraged by financial deregulation in tbe late 1980s, they have challenged the domestic groups in corporate banking, althougb they bave not seized as much market share as many observers predicted. Swedish banks still control up to 70 per cent of bond market trading, while their shares in corporate finance and asset management are higher.

"Swedisb banks obviously bave a very strong foothold. It has been more difficult to compete with tbem than many had believed," says Mr Peter Lindquist, treasury and capital markets analyst at HSBC Midland in Stockholm.

This is demonstrated by tbe domestic banks' attention to costs. They are today the most cost-effective in Europe, with an average cost/income ratio of 47 per cent, compared to a 62 per cent average elsewbere in Europe.

A streamlined operating basa will be increasingly important as the banks contemplate the prospect of a European single currency, starting in 1999. Sweden has opted out of the first wave of European economic and monetary union (Emu) participation, a decision whicb some belleve could blunt the banks' competitive edge.

Emu will bring tbe banks into closer direct competition witb European banks, particularly in capital markets, where foreign currency and fixed income trading revenues are vulnerable to tbe advent of tbe euro. This is because foreign excbange revenues are likely to decrease with tbe abolition of a number of European currencies and bond liquidity may gravitate to euro-zone markets.

How will the banks meet tbe cballenge? So far, restructuring has been domestically oriented. Mr Hubert Fromlet, chief ecooomist at Swedbank, believes Swedish banks must try to become more regional in their thinking.

"We are too small to be big global players, but eastero Europe and Russia are righi on our doorstep," be says. "Poland is today tbe second biggest emerging market for Swedisb companies behind China, and is just soutb of our coast. This is a market whicb cannot be ignored." Swedbank has recently bougbt stakes in an Eatonian and a Polisb bank.

Tbere Is an Increasing trend for Nordic banks to move into eacb other's markets. Handelsbanken and SE-Banken both have limited operations in Norway, Denmark and Finland.

Some believe this development could lead to a Nordic banking merger, while others have flagged the prospect of joint ventures with European banks once monetary union takes off.

Ms Monica Kapoor, banking analyst at Fox-Pitt Kelton, the Londoo brokerage, auggests that there may, in the longer term, be mergers between Swedisb and other Nordic banka, saying this would provide "a better cultural" fit than a tie-up with a European bank.

Ms Kapoor does, however, add: "There is more room for domestic consolidation before we see Nordic consolidation."

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PENSIONS • by Christopher Brown-Humes

Overhaul to ease squeeze on funds

Benefits reform is likely to result in greater involvement by the private sector

Sweden is about to embark on the biggest shake-up of its pension system for nearly 40 years.

The reform will increase the private sector role in pensions, although the state role will remain dominant, much to the regret of some right-wing critics of the current system. There is also likely to be greater investment in equities to help fund pensions – not just by private sector providers, but by the big state funds.

Driving the overhaul is the perception that the current system is too generous and cannot be supported given an ageing population, longer life-spans, and the risk of low economic growth. Even if the economy grew at 2 per cent a year from now on, contributions would need to rise from their current levels to fund the same level of pay-outs.

At present, everyone receives a basic state pension and an earnings-related top-up, known as the ATP system. ATP pay-outs are based on the best 15 years of a person's working life. It is a defined benefit, pay-as-you-go scheme, meaning those at work pay for those who have retired.

The new system will still be pay-as-you-go but, in an unusual combination, it will be based on the defined contribution concept. Every person will have an individual account on which their eventual pension will be based, but the money will not be physically present as it is with a normal savings account.

"People will have an entitlement or bond on future taxpayers," says Mr Olle Zettergren, a pensions specialist at the Swedish ministry of health and social affairs. Each year everyone will get a statement of account.

The reform envisages employers and employees each paying 9.25 per cent of gross wages into the scheme. The big concession towards individual and private sector involvement comes in the shape of the "premium reserve" which covers 2 percentage points of the 18.5 per cent total. People will be able to choose exactly how they want the premium reserve to be invested.

Analysts expect most of these investments to go into private rather than state schemes. Exactly how much this will benefit quoted companies such as Skandia and Trygg-Hansa is unclear, although it is likely their fund management operations will expand substantially.

The proposed reforms are based on political consensus between five parties to reduce fears of reversals under different governments. But the spirit of compromise has not left everyone happy. For example, the right-wing Moderate party wanted a greater private sector role in the reform, and hopes that success for the premium reserve concept may lead to that part of the scheme being expanded in due course.

According to Mr Zettergren, the new scheme will save the state money if economic growth is less than 2 per cent a year – a likely prospect given the country's recent sluggish economic performance. But he stresses: "The reform is not designed to save money; it is designed to be sustainable during the ups and downs of the economy and to meet demographic change." If the economy shrinks – or emigration increases or birth rates fall – pensions will be reduced.

Reforming a pensions system as comprehensively as this is a tortuous business, however. The proposals were first discussed in 1991 – even now, final agreement has not been reached and they are unlikely to be introduced before 2000. Crucially, the finance ministry has still to give its blessing. Some believe the ministry is worried that the new system may be more difficult to scale back in times of fiscal crisis than the current one because individuals will be able to see clearly what they have amassed in their pot.

The irony is that more and more Swedes are convinced that the state arrangements will fail to support them in their old age, and they fear further scaling down of benefits and/or the need for higher contributions. This is leading to more people taking out private pensions. "People think it's going to be more or less up to them to secure their retirement," says Mr Stefan Sundblom, head of research at Swedbank.

In a separate development, the Social Democratic government is expected to propose this autumn a reform allowing some of the big state pension funds – the so-called AP Funds 1, 2 and 3 – to invest in equities, subject to clearly defined limits. At present, these funds, which manage about SKr600bn of assets, only invest in bonds and real estate – although AP Funds 4 and 5 already invest in equities.

"Research has shown that we can make more money over the long term if we invest in equities," says Mr Lennart Nilsson, president of the AP Funds 1, 2 and 3. But he says the proposal is controversial because it would increase ownership of Swedish business by the Swedish state and possibly lift institutional control at the expense of private individual involvement.

On the other hand, there are undoubtedly those who would support a change that brought Swedish industry more under Swedish control at a time when foreign investors own 30 per cent of the shares of Swedish companies.

Clearly changes to the Swedish pension system are not going to please everyone, but most observers believe they will produce a more sustainable pension system than the current regime. "Overall it is a sensible reform, but it would have been more efficient if the private sector had become more involved and if people felt more involved in their own savings," says Mr Ake Gustafsson, an economist with Swedbank.

INSURANCE • by Christopher Brown-Humes

Big two have yet to reach the altar

Despite failed takeover bids, Skandia and Trygg-Hansa may still succumb

Given the wave of marriages sweeping Nordic financial services, Skandia and Trygg-Hansa, Sweden's two largest quoted insurers, are starting to stand out as spinsters.

Both have tried, and failed, to make significant acquisitions in the past year – Skandia with its attempt to buy Stadshypotek, Sweden's biggest mortgage bank, and Trygg with its bid to acquire Wasa, the mutual insurer. Skandia was outbid by Svenska Handelsbanken, and Trygg was decisively rebuffed by Wasa.

The attempted acquisitions suggest both companies have caught the prevalent merger fever. Neither rules out participating in the ongoing consolidation, although they insist they are pursuing perfectly viable strategies for organic growth. Indeed, efforts to boost efficiency have yielded handsome benefits in both cases and led to a significant rise in their shares.

Despite this, questions remain over whether going it alone is a viable option or whether both companies will inevitably – if not imminently – get caught up in the consolidation process around them.

Trygg, with a market capitalisation of about SKr13bn – less than half Skandia's – looks vulnerable to a possible takeover. After retrenching several years ago from a disastrous foray into the US market, it has retreated to the Nordic and Baltic markets and no longer seems to entertain expansionary ambitions outside those boundaries.

A year ago, Mr Lars Thunell, Trygg's chief executive, outlined three options for the group: to link up with another Nordic insurer, or a Swedish bank, or become, eventually, a branch of one of the big international insurers. The recent bank consolidation, and the limited number of insurers to link up with, suggests the third option may now be more likely.

"I cannot see Trygg as anything other than a takeover candidate," says Mr Bob Yates, an insurance analyst at Fox-Pitt Kelton in London.

Mr Thunell says the three options are still long-term scenarios, but he insists the group has a credible strategic path forward in the meantime. He has successfully turned Trygg around after the US debacle, the evidence being healthy profits and a strong solvency margin. Key areas of focus now are the savings market, where the company is gaining market share, and information technology (IT). It is also making tentative moves into the Danish and Polish markets in areas where it feels it has an expertise it can exploit effectively.

"The more we grow our savings, the more we develop the IT side, the more valuable we will be to our owners," says Mr Thunell, in a tacit acceptance that the insurer might merge or form a partnership with another group in the long run. But he is not ruling out an acquisition attempt of his own.

Both Trygg and Skandia are fighting it out in competitive markets, where their problems are aggravated by the maturity of their non-life businesses. They are focusing heavily on the faster-growing life and savings side, even though they are facing an increasing competitive challenge from banks in this area. Mr Thunell cites predictions of real growth in the savings market until the year 2005, driven by demographic change and reduced state provision.

For Skandia, failure to acquire Stadshypotek is the latest in a line of attempted tie-ups with other Nordic financial groups that have came to nothing – for example, the company tried to buy Hafnia, the Danish insurer, earlier in the decade, and has in the past made little secret of its desire to strengthen its links with Pohjola, the Finnish insurer.

In contrast with Trygg, Skandia retains a strong presence in markets outside Sweden, based on its fast-growing international life insurance operations and non-life ambitions, which are largely confined to the Nordic markets.

Its aim is to increase its share of the total Nordic life and non-life insurance market from 15 to 20 per cent, according to its new chief executive, Mr Lars-Eric Petersson. That will almost certainly require stronger operations in Denmark and Finland, where it remains weak by contrast with Sweden and Norway.

The group has committed to withdrawing from its Italian motor insurance business – where it has accumulated losses of about SKr1bn since the late 1980s – but says other non-life activities outside Sweden – including NIG in the UK – are meeting return targets.

One of the biggest issues for the company is what happens next with AFS, its highly-successful unit-linked life insurance business. This is a unit which has seen its premium income increase by an average 47 per cent annually over the last five years, and operating profits by an average of 98 per cent a year.

Many analysts anticipate at least a partial flotation of the business, which they see as the jewel in the crown of Skandia's portfolio. Mr Petersson remains noncommital, stressing the priority for the moment remains growing the business and making it transparent to investors. "The question of whether Skandia should discuss a partial flotation of AFS is not going to come up within the next two or three years," he says.

SWEDEN AND EMU • by Christopher Brown-Humes

Provisions and sidelines

A jittery nation, technically prepared for monetary union, has stalled joining

Swedish coolness towards the European Union became clear last month when the executive committee of the Social Democratic (SDP) government ruled out joining the single currency at its planned start in 1999.

The decision was not surprising given the mood of the country and SDP splits on the issue, but it does complicate the planning of banks and business and will almost certainly increase costs.

The SDP said lack of public support for European economic and monetary union (Emu) and the shakiness of the project had dictated its wait-and-see attitude. There was some irony in the decision, given that recent economic austerity was partly designed to ensure the country met the Maastricht criteria for Emu. Sweden does not have a formal opt-out on the project – unlike Denmark and the UK – but the country has always asserted the right of its own parliament to decide the issue.

When and whether Sweden joins will depend on a number of factors, but the most important will probably be the success of Emu itself, which is still not certain to go ahead in 1999. The public will vote on the issue, either through a formal general election or via a referendum. Mr Klas Eklund, chief economist at Skandinaviska Enskilda Banken, says: "Our main scenario is that Sweden joins Emu after the election in 2002 (Sweden has elections every four years and the next one is in September 1998). But there is a slight chance it will be before that if a major external event justified it."

In the meantime, the country is in no rush to join the exchange rate mechanism (ERM), the ante-chamber to Emu membership.

One obvious worry is that the financial markets will punish Sweden for staying outside the first wave, especially given its poor long-term record on inflation and the costs of supporting its generous welfare state. Mr Eklund believes, however, that the country's credibility has improved substantially over the last few years because it now has low inflation, a balanced budget, and plans to make the Riksbank, the central bank, more independent.

Even the bloated state debt is finally coming down. The general view of the business community is captured by Mr Stefan Ingves, deputy governor of the Riksbank, when he says: "We need to conduct policy in such a way that we meet the Maastricht criteria regardless of whether we are in Emu or not."

The "not" scenario, though, is causing Swedish bankers and the business community considerable headaches. Indeed, many executives would rather have been part of the single currency from the outset. "Now we have to prepare ourselves for two systems, which increases costs," says the chief executive of one of the country's leading financial institutions.

All the banks expect their wholesale operations to be affected from the outset, because they will be offering their customers euro payment services, and they expect to trade interest-bearing instruments in the currency. Mr Per Jederfors, the executive in charge of overall Emu planning at SE-Banken, says: "We need to handle a foreign currency as if it was a domestic currency because it will penetrate so many of our business operations in Sweden."

More intriguing is whether the banks will offer retail products, including pensions and long-term savings products, in euros before a Swedish entry. Mr Anders Nyren, executive vice-president of Nordbanken, says: "We will launch retail products in euro if that's what we feel our customers want." One Swedish mortgage institution is planning to launch euro-denominated mortgages in 1999, although it appears to be directed at the municipalities, rather than individuals in the first instance.

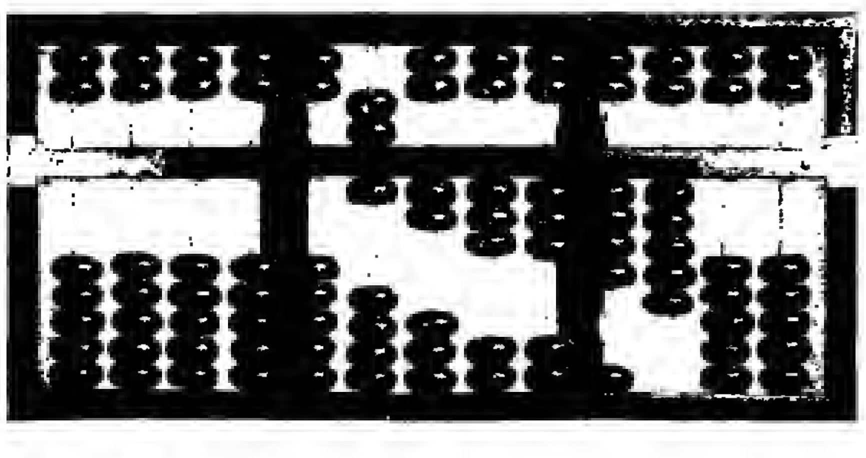
The question of access to intra-day liquidity within the Target payments system at the centre of the single currency is one that Swedish banks are starting to confront. SE-Banken believes it will be able to get round this problem because it has a wholly-owned subsidiary in Frankfurt – an entity incorporated in Germany, rather than a branch, so it should enjoy the same access to the market as German banks. Handelsbanken might also manage to circumvent the difficulty through its operations in Helsinki, providing Finland sticks to its ambition of joining Emu at the outset.

The Swedish banking association estimates euro-readiness will cost the banks about SKr2.5bn – much less than initial forecasts. The big banks, such as SE-Banken and Nordbanken, reckon they are facing a bill of about SKr500m each. About half of this relates to IT; the rest to information and education programmes, and upgrading or changing products. There may be some delayed expenses from not joining early: for example, automatic teller machines will not be changed as quickly.

Sweden's big multination-

Continued on Page 4

It's pure Scandinavian



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CAPITAL MARKETS • by Greg McIvor

The tensions of change

Restructuring Scandinavia's largest stock exchange will aid competition

The past month has been a busy one for Mr Bengt Ryden, president of the Stockholm stock exchange. Having narrowly failed to land an innovative merger with OM, the Swedish derivatives exchange operator, he then unveiled a joint equity trading market with the Danish bourse – the first tie-up of its kind among European stock exchanges.

Plans to restructure the fabric of Sweden's financial markets have been bubbling away for some time. In recent weeks they have come to the boil. Faced by an increasing flow of capital from small markets to Europe's big financial centres, Stockholm must increasingly compete on a wider European stage. This will be especially true when the planned European single currency is launched in 1999.

"There is no immediate pressure for us to act, but in the longer term it will be more and more difficult for the smaller exchanges to deliver the services which are demanded at competitive prices because they are too small," he says.

The tie-up with Copenhagen is an attempt to address this. By merging their trading systems and creating a joint regulatory framework, the two bourses will form a joint equities trading market that will be Europe's sixth largest exchange, with a market value in excess of $350m.

Both hope that by combining they will become more attractive to investors and better able to retain trading volumes in big domestic stocks with international listings.

For Stockholm, one such stock is Ericsson, the Swedish telecommunications group. It is the most traded share, accounting for 14 per cent of total volume last year. In recent years, though, an increasing proportion of trade in Ericsson has shifted outside Stockholm. The stock is traded on Nasdaq in the US, as well as being listed in London, Frankfurt, Paris and Zurich. Less than 40 per cent of Ericsson turnover now takes place in Stockholm.

"We don't have a *de facto* monopoly. We can lose trade in Ericsson every day," Mr Ryden says. "Stockholm must be able to compete with the best exchanges in terms of cost and quality, he stresses. "It is more and more evident that market participants are comparing different exchanges."

Mindful of this, the bourse is gearing up to launch trading in euro in 1999. Although Sweden has declared it will not join the first batch of participants in monetary union, the stock exchange authorities believe liquidity could be lost if Sweden does not adapt to the new challenges posed by the European economic and monetary union (Emu). The measure, aimed in particular at preserving turnover in the shares of Sweden's big international corporations, will give companies a choice of listing in krona or in euro.

Stockholm bourse executives would like to bolster the market's standing further by creating a pan-Nordic equities trading market, linking Norway and Helsinki. But when Stockholm offered to supply its new, upgraded system to all, only Copenhagen accepted. Oslo and Helsinki snubbed the invitation, fearing an integrated market would be dominated by Sweden, which represents close to 60 per cent of the combined market.

The difficulties of merging markets were further underlined by the collapse last month of the planned merger between the Stockholm bourse and OM, a listed company. This would have created a common market for equities and derivatives trading but was blocked by a worried minority of the bourse's shareholders.

A group of four banks with a 20 per cent stake in the bourse objected to the fact that the merged group would be a listed company in which the biggest shareholder would be Sweden's powerful Wallenberg industrial empire through its large holding in OM.

Mr Ryden and Mr Per Larsson, OM's chief executive, are unabashed. "I don't think there is room in this small country for two full-service exchanges," Mr Ryden says. "If a full merger is not possible there are, of course, second-best alternatives."

What the alternatives are is not clear. In the meantime, other pressing issues are piling up. A change in Swedish wealth tax rules for shareholders has triggered an exodus of companies from the main A-list to the bourse's O, or unregistered, list. This is intended for smaller, growing companies but is exempt from wealth tax.

The wealth tax increase has saddled some large shareholders with heavy tax bills on their holdings. A spate of companies, led by fashion retailer Hennes & Mauritz, have moved to the O-list to protest. This would be fine but for the fact that many foreign institutions are barred from investing in companies without a main listing. Liquidity in the companies that have moved is therefore under threat.

At a time when the stock exchange is trying to polish its image, this development is unwelcome. Officials will hope that the government's promised effort to harmonise tax rules for the two lists will produce a commonsense solution for all.

PROFILE Jacob Wallenberg

Dynasty tightens its grip on SE-Banken

The elevation of Mr Jacob Wallenberg in April to the chief executive's seat at Skandinaviska Enskilda Banken, the Wallenberg family's financial flagship, was an occasion laden with symbolism.

Mr Wallenberg, aged 41 and son of the current family head, Mr Peter Wallenberg, becomes the fifth member of Sweden's most powerful industrial clan to run the bank.

Latterly, the Wallenbergs have used the boardroom rather than executive control to oversee a bulging corporate portfolio which boasts controlling stakes in companies such as ABB, the Swedish-Swiss engineering group, white goods maker Electrolux, and telecommunications group Ericsson.

But by securing Mr Wallenberg's promotion from SE-Banken's Enskilda corporate banking division, the family has taken a decisive grip on the bank at a crucial juncture in its development.

Jacob Wallenberg: Planning for the millenium Photo: Ingvar Karmhed

SE-Banken has been conspicuously absent from the wave of restructuring that has pulsed through the sector in recent months. Yet its reliance on low-margin corporate lending and trading operations make it arguably more exposed than any other of Sweden's big banks to mounting competition and the challenge of the planned European single currency.

Mr Björn Svedberg, Mr Wallenberg's predecessor, did hold merger talks with Nordbanken, SE-Banken's state-controlled rival, earlier this year. These negotiations ended inconclusively, however, when the parties failed to agree on proposed ownership structures.

Mr Wallenberg had been widely tipped as Mr Svedberg's natural soccessor and has been expected by industry observers to restart the stalled nuptials. However, Mr Wallenberg is keeping his options open. He declined to say if cootacts had taken place with Nordbanken since he took over, and stresses he feels under no pressure to jump into any deal.

"We are not [to be] pushed. We have a good, solid market position in all the areas where we are present," he says. "I don't need to do anything at all. That has to be clear to anyone who looks at us."

It is not clear whether Mr Wallenberg would prefer the Nordbanken route or whether he might seek a tie-up with an insurer. Alternatively, there is the option of linking arms with another Nordic bank or even a European bank.

Whatever his thinking, he implies that any deal may have to wait at least until the end of the year. That is when a wide-ranging strategic review launched by him on taking over is due to be completed.

The exercise, being piloted by two top executives, will plot SE-Banken's course into the next millennium. Mr Wallenberg hints that when it comes the result could bring substantial changes to the bank's structure.

"It is difficult to be everything to everyone at the same time," he says. "What we have to do is focus on what we are good at and areas where we can deliver the highest quality products."

The bank's strongest market shares are in capital market activities, such as bond and equity trading, and in foreign exchange aod international payments. In all these areas, it is the Swedish market leader.

Mr Wallenberg is keen to expand in these areas, as well as in the growing mutual fund market, where SE-Banken is number two. By contrast, he exudes little overt enthusiasm for mass market retail operations, where SE-Banken lags behind its three main rivals. SE-Banken is a "Jaguar producer rather than a Fiat producer", he says.

A sale of some or all of the retail operation – whether to Nordbanken or another bank – will be high on Mr Wallenberg's list of alternatives. For the moment, he is non-committal. But sooner rather than later he will need to show his hand.

Greg McIvor

Emu sidelines

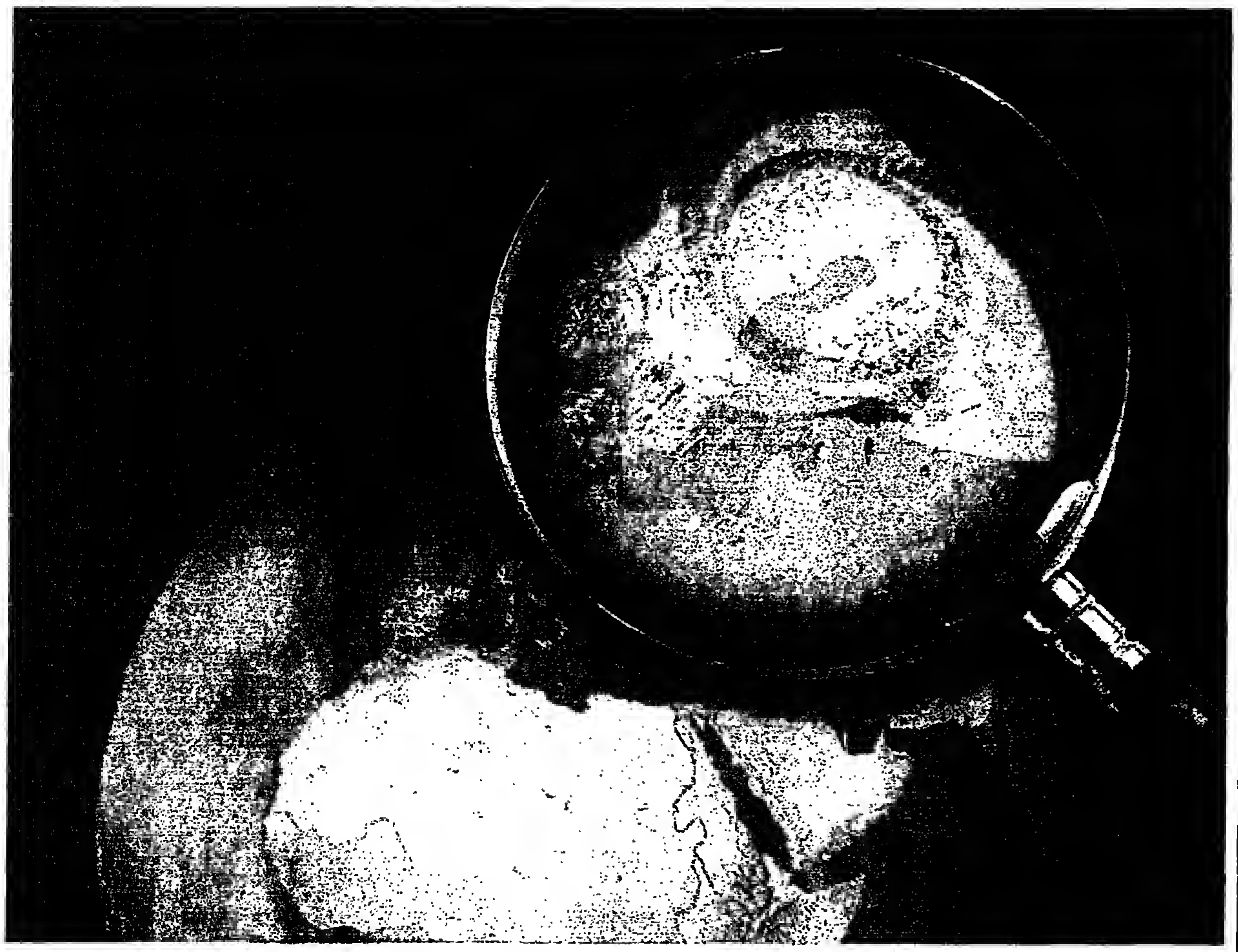
Continued from Page 3

als are also gearing up for Emu. They are used to dealing in many currencies, so one more will present few problems. But they face other questions. It is expected that some companies with large daily turnover in their shares and big international shareholders may opt to be quoted in euro on the Stockholm stock exchange.

There is the broader question of whether thay will also convert their balance sheets and profit and loss accounts into euro and pay dividends in the currency, although this is likely to require a change in current company law.

Some pundits believe Swedish business is better prepared technically for Emu than it is for the poteotial competitive impact from foreign interest. There is expectation, for example, that foreign banks will step up their challenge, not just in the corporate arena but in retail services as well.

Another worry is whether Sweden will use the breathing space gained by delayed entry to enact further economic reforms. For example, many economists believe it needs to make its labour market far more flexible if it is to avoid negative consequences from any eventual embracing of the single currency.



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